Pension Reform in Turkey in the Light of Latin American and East European Experiences: A Comparative Political Economy Analysis

by

Ümmühan Eda Bektaş

A Thesis Submitted to the

Graduate School of Social Sciences

in Partial Fulfillment of the Requirements for

the Degree of

Master of Arts

in

International Relations

Koç University

August 6, 2010

Koc University

Graduate School of Social Sciences and Humanities

This is to certify that I have examined this copy of a master's thesis by

Ümmühan Eda Bektaş

and have found that it is complete and satisfactory in all respects,

and that any and all revisions required by the final

examining committee have been made.

Committee Members:

Prof. Dr. Fuat Keyman (Advisor)

Prof. Dr. Ziya Öniş

Assoc. Prof. Kamil Yılmaz

STATEMENT OF AUTHORSHIP

This thesis contains no material which has been accepted for any award or any other degree or diploma in any university or other institution. It is affirmed by the candidate that, to the best of his knowledge, the thesis contains no material previously published or written by another person, except where due reference is made in the text of the thesis.

Ümmühan Eda Bektaş

ABSTRACT

The present study aims to explore the diffusion of pension privatization among developing countries of Latin America and Eastern Europe in comparison with Turkey in order to understand why Turkey did not institute radical pension reforms in its public pension system in contrast to Latin American and Eastern European countries. In this regard, I argue that four principal factors play a determining role in the implementation of structural pension reforms and these determinants explain why Turkey and countries of Latin American and Eastern European went in such different directions in terms of pension reforms. Examples of these principal determinants include macroeconomic factors regarding the situation of economies and pension systems; the context of political regimes in terms of levels of democracy, welfare legacy and electoral constraints; the influence of interest groups and the influence of World Bank as an international financial institution. This research contributes to the literature by examining these factors in an interrelated relationship in cases that instituted full, partial or no pension privatization in order to understand how variations on these principal determinants lead to different pension reform outcomes.

Key Words: Latin America, Eastern Europe, Turkey, pension privatization, structural pension reforms, comparative political economy, the World Bank.

ÖZET

Bu çalışma, Latin Amerika ve Doğu Avrupa'nın gelişmekte olan ülkelerinde yaygın olarak görülen emeklilik sistemlerinin özelleştirilmesini, Türkiye ile karşılaştırarak, neden Türkiye'de bu ülkelerde görüldüğü gibi radikal emeklilik reformu yapılmadığını incelemeyi amaçlamaktadır. Bu bağlamda, başlıca dört faktör, yapısal emeklilik reformlarının gerçekleştirilmesinde belirleyici rol oynamakta ve bu belirleyici faktörler, Türkiye'nin emeklilik reformları konusunda neden Latin Amerika ve Doğu Avrupa ülkelerinden daha farklı bir yol izlediğini açıklamaktadır. Başlıca belirleyici faktörler, ekonomilerin ve emeklilik sistemlerin durumlarını içeren makroekonomik etmenler; demokrasi seviyesini, refah mirasını ve seçim engelini içeren siyasi ortam; çıkar gruplarının etkileri ve bir uluslararası finansal kurum olarak Dünya Bankası'nın etkileridir. Bu araştırma, birbirleriyle ilişkili bu faktörleri emeklilik sistemini tam olarak özelleştiren, kısmi olarak özelleştiren ve hiç özelleştirmeyen vakalarda, değişik değerler aldıklarında nasıl farklı reform sonuçlarına yol açtıklarını inceleyerek literatüre katkı sağlamaktadır.

Anahtar Sözcükler: Latin Amerika, Doğu Avrupa, Türkiye, emeklilik sistemlerinin özelleştirilmesi, yapısal emeklilik reformları, karşılaştırmalı ekonomi politik, Dünya Bankası.

ACKNOWLEDGEMENTS

This thesis project is a product of intense study which required continuous motivation, focus and willingness. I could not able to finish it if these precious people withhold their support. I would like to express my profound gratitude to my advisors Prof. Ziya Öniş and Prof. Fuat Keyman whose advices and intellectual curiosity guided me in this project and also in life.

I am also indebted to the Scientific and Technological Research Council of Turkey (TÜBİTAK) for their financial support during my graduate education and their valuable contributions for research in social sciences.

Also, I am very thankful to my roommates and classmates as they always listened to and supported me in this journey. My special thanks go to my family as they always encouraged me not only in this study but during all my graduate studies. Lastly, I am very grateful to my one, my sweetheart, my fiancé, Polat as he was always there for me and his continuous encouragement make me believe in myself and my work.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1

INTRODUCTION

People earn a living by selling their labor in free market economies and this situation causes people to be dependent on the market to survive. As long as a person can work, s/he can make money to survive. Considering this dependency, modern states in the 20th century introduced social insurance systems to provide decommodification for citizens through pensions, old-age, disability, unemployment insurances and such. Decommodification means the institutionalized policies aim to decrease or eliminate citizens' dependency on the market to survive with the provision of several incomes such as pensions for retirement and old-age for people above a certain age who have no possible income, and insurances like disability in case of losing ability to work and unemployment when there is job loss (Andersen, 1990). The kinds of securities that states construct and the extent that they provide benefits vary across countries but the underlying logic of these benefits is the same. A social insurance system is a state establishment composed of several incomes and insurances which aim to provide a standard livelihood to people.

However, as a social insurance system matures, it becomes financially unsustainable. Most of the countries suffering from huge debts of social insurance have implemented or are considering pension reform for a sustainable system. During the 1980s while most of the states were revising their social insurance systems with parametric reforms, in 1981 Chile implemented pension privatization[1] through structural pension reforms and this was radical in the sense that it changed both the nature and the structure of the system. Parametric pension reforms do not alter the system but revise it via an increase in the retirement age, payroll taxes and changing the calculation formula of pensions. Such reforms aim to strengthen current public pension systems without initiating any structural changes. On the contrary, structural pension reforms transform public pension schemes to private schemes by changing the system from defined benefit[2] to defined contribution system[3] (Gillion et al., 2000; Schwarz and Kunt, 1999). Thus Chile introduced a radical change; a private pension system based on defined contributions through structural pension reforms.

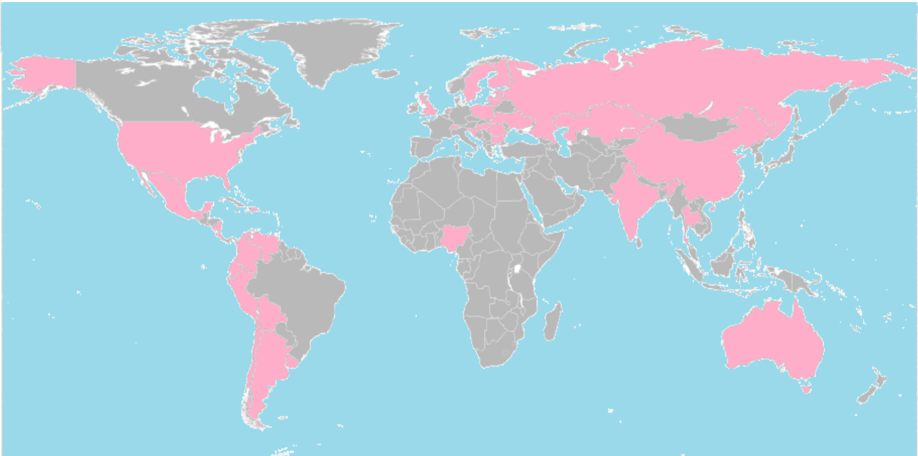
1.1. The Aim of the Thesis

The Chilean model of pension privatization is important to discuss as it initiated privatization of pension schemes in Latin America in the 1990s and changed the logic and the structure of pension systems. Throughout the 1990s, in Latin America, most of the states introduced a mandatory defined contribution pillar as a cure for the problems of public pension systems and in the late 1990s, this wave spread to Eastern Europe for the same reason. As Figure 1.1 below illustrates, there is a notable pension privatization tendency among Latin American countries (LACs) and Eastern European countries (EECs) and also in other developing and developed

[1] Pension privatization refers to structural pension reforms characterized by the introduction of a defined contribution pension scheme.
[2] In public pension systems, benefits of the system are defined in the pension law whereas contributions increase in time and this aspect makes the system defined benefit system.
[3] In private pension schemes, contributions are defined at a certain amount whereas benefits change according to the contribution level, returns and market performance.

countries like Kazakhstan (1998) Hong Kong (2000), Korea (2004), Nigeria (2005) and United Kingdom (1988), Australia (1994), Sweden (1999), and Russia (2002).

Figure 1.1: Projected Structural Pension Reforms in the Year 2010 (Pink Areas)



Source: Holzmann, 2000.

The overall aim of this thesis is to explore the diffusion of pension privatization in a comparative context in order to understand why developing countries enact such a radical change. The public pension system is introduced as a decommodification tool to eliminate the dependency of individual on the market to survive by providing a basic livelihood. It is financed as pay-as-you-go (PAYG)[4] in which every active worker contributes to the system and this accumulation pays the pensions of the retirees which are calculated by a certain formula. This type of system not only creates intergenerational solidarity but also guarantees some certain benefits regardless of any economic downturns or peaks. However in a private pension system, this logic is reversed and people save their contributions in individual funds which are invested in the market. Thus the benefits of private

[4] In the literature there are two kinds of funding in social insurance systems. PAYG system is used to refer unfunded public system which means that contributions made by active workers pay the benefits of the current retirees. Contrarily, the new trend of privatization of PAYG system means individually accumulated fully funded individual pension system or private pension system.

pensions are individualized and depend on the amount of individual contributions and the market performance. But more importantly, such a system recreates the dependency of individuals on the market. Rather than paying the pension of the retirees and retirees expecting to receive pensions, people become dependent on returns from economic operations and performance to get social security protection. Chilean politicians and technocrats promoted this "reversed logic" for the problems of social insurance and it seems that a significant number of countries find it reliable. As Figure 1.1 above demonstrates, there is a notable diffusion of structural pension reforms among developing countries as well as developed countries. The analyses of reform outcomes in Latin America and Eastern Europe demonstrate that pension privatization in Chile diffused at different levels among these countries. Thus, the main goal of this research is to investigate why Chilean model of pension privatization did not diffuse or diffuse partially among Latin America and Eastern Europe countries, focusing on a comparison of the pension reform experiences of Turkey with these countries. In particular, I aim to discuss why Turkey did not institute radical pension reform similar to Chilean model in its public pension system.

1.2. The Argument and the Methodology of the Thesis

In this regard, I will suggest that there are four principal factors playing a determining role in the implementation of structural pension reforms in developing countries. I will examine the relationship between such factors and the process of privatization and attempt to explain why Turkey and Latin America and Eastern Europe countries went in different directions in terms of pension reforms. Examples of these principal determinants will include macroeconomic factors regarding the situation of economies and pension systems; the context of political regimes including the levels of democracy, welfare legacy, electoral constraints and seats of government in the parliament; the influence of interest groups; and the influence of World Bank as an international financial institution (IFI). I will argue that the worsening situation in economies and public pension systems together with the increasing influence of neo-liberal technocrats lead to more radical and urgent pension reforms. However, high transition costs could deter governments to introduce such radical reforms. Moreover I will argue that the context of political regimes in terms of levels of democracy is a determinant in the reform outcome as more authoritarian regimes such as Chile and Mexico implemented a total privatization of their pension systems. In addition to the levels of democracy, other influences affecting the reform design in a political context are majority of government seats in the parliament, welfare legacy and electoral constraints. Also the influence of interest groups plays an important role in the reform model if interest groups can act as veto players during the reform process. Lastly, I will argue that the World Bank as an IFI is effective in pension privatization as it supports the introduction of defined contribution pillar through technical and financial assistance.

These factors compose an analytical framework to investigate the reform experiences of Latin America and Eastern Europe countries in order to understand how these countries enabled pension privatization and the variation of reform outcomes like full, partial or no pension privatization. I will test the explanatory power of this framework in a comparative context generated from multiple case studies of Latin America and Eastern Europe countries with a deep focus on the single case study of Turkey. As the main goal of this research is the comparison of

Turkey with other developing countries of Latin America and Eastern Europe to discover why Turkey did not institute radical pension reform as in Chile, I will choose cases comparable to Turkey to understand similarities and differences between cases on the basis of these principal determinants. For comparison of cases, I will select seven similar cases among Latin America and Eastern Europe countries depending on several indicators shown in Table 1.1 below.

Table 1.1: Several Indicators of Public Pension Systems of Case-Studies

		Before the reform			After the reform	
Country	Date of first pension law	Coverage (% EAP[1])	Pension debts/ GDP	Date of reform	Coverage (% EAP)	Projected benefits from the private pillar[2]
Chile	1924	64	17%	1981	43	100
Argentina	1904	50	7%	1994	39	54
Mexico	1941	37	n.a.	1997	30	91
Brazil	1923	45[3]	4.8%[4]	-	31	-
Hungary	1928	64	9.7%	1998	65	43
Poland	1927	66	13.7%	1999	64	49
Czech Republic	1906	83	8.2%	-	67	-

Source: Haggard and Kaufman, 2008; Mesa-Lago, 1997; Müller, 2002; Valdés-Prieto, 2007b.

[1]EAP=Economically Active Population.
[2]In 2000, Haggard and Kaufman, 2008: 209.
[3]In 2002.
[4]In 1998.

As indicated in the Table 1.1 above, Argentina and the Czech Republic are the pioneers in the establishment of pension systems and the countries established their pension systems during the 1950s and afterwards are not included in the case studies. The table demonstrates also the amount of the pension debts that led policy makers to implement reforms and the coverage of pension systems before and after the reforms that indicates the size of the systems. Thus, the cases examined in this thesis with qualitative analysis are representative for a broader population which will make the arguments more convenient for general causal inferences. For this reason, countries with relatively smaller pension systems and not mature enough among

Latin America and Eastern Europe countries are eliminated although the principal factors also explain the reform outcomes in these countries.

While most of the developing countries in Latin America and Eastern Europe fully or partially privatized their pension systems, countries like Brazil and the Czech Republic maintained their public pension schemes though with parametric reforms by blocking pension privatization attempts. Similarly, Turkey maintained its public pension system and participation in a private pension scheme established in 2003 remained voluntary. Thus, the investigation of reform outcomes in these cases indicates that radical pension reform in Chile did not diffuse in its extreme form, but diffused at different levels. This research introduces a typology consisted of three reform outcomes such as full, partial or no privatization. Mexico is the only case in this study that privatized its public pension fully though significant differences from Chilean model. Argentina, Poland and Hungary instituted partial privatization whereas Brazil, Czech Republic and Turkey are cases that did not enact pension privatization. The examination of case-studies according to these clusters indicates how variations on principal determinants lead to different pension reform outcomes and why countries did not enact radical Chilean pension reform. The comparative analysis of these clusters in a multiple case study according to the analytical framework will contribute to the credibility of the analysis of Turkey in which I will discuss why pension privatization did not take place.

The findings of this thesis will be valuable for future research that may discuss what kinds of political economy factors are effective in pension reform models as the present study will present an analytical framework investigating significant interrelated factors in all possible reform outcomes. Similarly, earlier studies (Brooks, 2009; Kay, 1999; Madrid, 2002; Mesa-Lago, 1997; Mesa-Lago and

Müller, 2002; Weyland, 2006a; Weyland, 2006b) discuss also what kinds of factors are effective in implementing structural pension reforms. These studies examine the driving forces of structural reforms such as the influence of IFIs, internal political factors, interest groups, and the degree of democratization separately which are investigated in a framework all together in this study. The commonality between these studies and this research is that all discuss principal determinants in cases that instituted either full or partial pension privatization to identify principal factors leading to structural pension reforms. However this research will also test these principal factors in the cases which preferred parametric reforms rather than structural reforms such as Turkey, Brazil and the Czech Republic. This kind of methodology will contribute to the credibility of the analytical framework in explaining various pension reform outcomes. In this regard, this research may also be evaluated as a guideline for policy makers considering implementing radical institutional changes in a pension system as the analysis indicates how relevant actors respond to these changes.

However, the theoretical base of the research is limited to explain the influence of the ideology of governments in implementing structural pension reforms. In general, liberal governments are more prone to enact such market oriented changes compared to leftist governments. But, such changes are also implemented in social democratic governments of Eastern Europe. Thus, case-studies in this research with different ideological orientations having implemented similar reform models will deter to measure the effect of ideology on reform outcomes. Thus, rather than ideology, the context of political regimes including democracy, welfare legacy and electoral constraints as well as the seats of the government in the parliament will be investigated as factors explaining the reform outcomes. However, the correlation between government ideologies and pension reform outcomes can be measured with a larger cross-cultural quantitative study in future studies. Based on the significance of this correlation, other single or small-n case studies may investigate how ideology becomes a determinant in enabling structural pension reforms.

1.3. The Organization of the Thesis

This thesis proceeds with several chapters each of which contributes to the aim and the arguments of the research. The following chapter will consist of three parts discussing the insights of the pension privatization among developing countries of Latin America and Central Eastern Europe. It will begin with a brief history of structural pension reforms and general models of pension schemes. Then I will describe the transformation of pension systems to note the differences between public and private schemes (or in other words between defined benefit and defined contribution schemes). In the final section, I will explore the underlying determinant factors that drive privatization of public pension schemes. This section is significant for the debate in the following chapters as it will determine the principal determinants formulating the analytical framework that will explain how structural pension reforms are favored rather than parametric reforms in developing countries. In other words, this part is the theoretical base of the thesis that I use to formulate an analytical framework in order to discuss various reform models and outcomes in case studies.

The third chapter will explore the pension reform outcomes in multiple cases on the bases of the analytical framework in four parts. The first part will investigate

Chile as an extreme case and Mexico as a case resembles most to extreme case Chile with its full privatization of pension system. The following part will explore how partial privatization in Argentina, Hungary and Poland enacted. The third part will discuss no privatization as reform outcomes in Brazil and the Czech Republic. The last section will explain briefly significant differences and similarities between cases indicating which factors are more significant than others in enabling pension privatization and reform outcome. The comparative study of reform outcomes will test the explanatory power of the analytical framework and determine political and economic patterns enabling privatization of public pension systems in developing countries.

The fourth chapter will analyze pension reform experiences of Turkey in a single case study to understand why privatization of the pension system did not take place in Turkey as well as in cases of Brazil and the Czech Republic. The chapter, composed of three parts, will proceed with a brief history of the Turkish pension system indicating both development and problems. The next two sections will discuss the reform experiences in 1999 and 2006 on the bases of the analytical framework to explain how pension reform outcome in the form of no privatization occurred. In order to investigate the insights of the 1999 and 2006 reforms, I will conduct several interviews with significant technocrats and scholars who were influential in the reform process. In the last section of the chapter, I will briefly discuss the reforms and compare the Turkish reform outcome with the experiences of Latin America and Eastern Europe countries to discover similar patterns and differences among cases. The concluding chapter will present a brief summary of earlier arguments and a discussion of findings.

CHAPTER 2

STRUCTURAL PENSION REFORMS: FROM PUBLIC TO PRIVATE PENSION SCHEMES

Most of the Latin America and Eastern Europe countries established their social insurance systems in early twentieth century following industrialized countries. During the 1980s and the 90s, the Bismarckian-Beveridge model of pension systems are matured and severe economic crises of the 1980s and financial problems required reforms on pension systems (Müller, 2000). LACs and EECs, which have more generous pension systems compared to LACs, faced with the reform necessity because of the same problems. Early retirements, demographic changes, debts of pension systems and poor management of the public funds together with low population coverage, lack of protection for large amount of informal and rural sector, for unemployed and poor people made public pension systems difficult to sustain (Barrientos, 1996; Kay, 1999; Kritzer, 2002; Madrid, 2002; Mesa-Lago, 1994). Thus the reform of public pension systems is considered as an important topic in the political agenda. In this sense, the radical pension reform of 1981 in Chile changed the outgoing perspective on pension systems around the world. It brought a new phase in pension systems literature with its full funding aspect based on individual contribution and caused the questioning of existing public pension systems with its financial success in Chile.

In this chapter, I investigate the privatization process of the public pension systems in Latin America and Eastern Europe to conceive the factors enabling such kind of a reform. Through the investigation of Chilean model of pension privatization in the first part, I discuss how privatization wave spread to other countries and regions and what kinds of models have occurred as a result of this diffusion. This part explains the three general models of private pension schemes across countries. In the second section I discuss the transformation of pension systems and what has changed. Thus in the first two sections of the chapter I aim to demonstrate the diffusion of pension privatization and its viability across countries and regions, and how pension privatization changed the logic of social insurance systems. Then the third part explains what kinds of factors lead to adoption of pension privatization in developing countries of Latin America and Eastern Europe. In other words, I discuss what drives Latin America and Eastern Europe countries to choose pension privatization as a cure for the financial problems of public pension systems. The discussion of principal factors facilitates to understand how Latin America and Eastern Europe countries enacted privatization in their pension systems and provides an analytical framework for case-analyses in the following chapters that explain why Turkey did not prefer structural pension reforms differently than other cases.

2.1. Pension Privatization and General Models of Pension Systems

In 1981 the authoritarian Pinochet regime in Chile privatized the financially unsustainable public pension system as a part of general neo-liberal market reforms. The new pension system was composed of mandatory defined contribution scheme (private pension tier) in which every formal sector worker contributed with 10% of his earnings and old-age benefit tier (social assistance system) in which government promises to pay a basic old-age pension to the retired workers whose private pension is too low to generate a minimum standard of living (Mitchell, 1998; Social Security Programs, 2007). However the structural reform of pension system in Chile caused significant macro-economic, micro-economic and social costs.[5] On the other hand, Chile could deal with the high fiscal costs of the privatization due to fiscal discipline, economic growth, budget surplus and political stability differently than other reformer countries. The transition to a private pension scheme also rendered capital market growth and capital returns on investment in Chile (Mesa-Lago and Arenas de Mesa, 2006).

Following this successful experience, many countries were interested in the introduction of defined contribution schemes by structural pension reforms in order to increase national savings, economic growth, capital investments, and to get more returns from individual accounts (Madrid, 2002). Contributions to private pension system could be saved whereas in public system they are spent on pensions of the retirees. Also policy makers aimed to ensure labor flexibility while decreasing non-wage labor costs as private pension schemes transfer employer and government contributions to the workers. Moreover, the aging problem of the public pension system is eliminated in private pension schemes, because these systems do not depend on the ratio of the active workers and their ratio to the dependents. It also prevents social insurance system being a source of patronage and political leverage (Madrid, 2002) through transparency and the involvement of private sector. Addition to Chile, during the 1980s the reforms in Sweden and UK demonstrated the

[5] For a more detailed discussion on costs and effects of pension privatization in Chile, see Mesa-Lago and Arenas de Mesa, 2006.

sustainability of such systems in developed countries. Also World Bank study *Averting the Old Age Crisis* (see World Bank, 1994), which recommends pension privatization through the establishment of a defined contribution scheme, shaped the perspectives on pension privatization (Holzmann, 2000; Mesa-Lago, 1996). Thus, policy makers intended to replace problematic public pension systems with a more efficient private scheme which also contributes to development of capital markets. So, radical pension privatization in Chile attracted attention of many states and institutions during 1990s and 2000s.

However in several cases politicians and public disfavored privatization of pension schemes. For instance, in Brazil which has the largest social security system among LACs, pension reform is a highly debated political agenda. In 2002 before the Brazilian general elections candidate running for presidency Luis Inácio Lula da Silva offered a universal and mandatory public pension system and a complementary private pension scheme for people who want larger benefit. But one of the other candidates Ciro Gomes offered an individual capital accumulation for pension system like a Chilean model (Nobrega, 2002). Similar to this case, in Venezuela position of political parties towards pension privatization were different. The proposal of pension privatization was suspended after populist Hugo Chavez took the office. In the Czech Republic, the liberal oriented government could not initiate pension privatization due to the opposition of bureaucracy in ministries of social affairs, unions and stakeholders. It implemented only parametric reforms after the negotiations with relevant political actors and established an individual pension system based on voluntary contributions (Haggard and Kaufman, 2008).

The reform of pension system attracts high attention and politicians can propose different models. In several cases leftist parties, social security bureaucrats, trade unions and pensioners' associations support parametric reforms and oppose pension privatization, but in other cases governments regardless of their ideology, neoliberal economists in financial ministries, social security bureaucrats, IFIs and private sector urge privatization of pension schemes (Mesa-Lago and Müller, 2002). The Brazilian case in which Lula da Silva won the elections with the majority of votes would be an example of showing the opposition and disfavor of public to pension privatization. In Brazil although public pension system has huge deficits, there is a significant resistance to proposals for privatization of pension systems.

But despite a number of domestic resistances, Chilean pension privatization became a role model and offered widely to countries considering pension reforms. Especially the governments influenced by liberal bureaucrats consider structural pension reforms to solve the problems of pension system. When George W. Bush proposed pension privatization for US before the elections in 2002, he is supported by José Piñera. Piñera (2002) who is the architect of the Chilean pension privatization adviced US to adopt Chilean style of pension reform by arguing that privatization of pension system provides the opportunity for every worker to be the owner of his pension capital. In this way, power is redistributed from state to civil society which is more appropriate for free markets and free societies. Thus, privatization of pension schemes is promoted not only as a solution for problems of public pension schemes but also as an appropriate policy for individual independency and free markets.

Although privatization of pension systems attracted attention of policy makers and Piñera argued that Chilean model is universal which makes it applicable to all social insurance systems (Mesa-Lago, 1996), there occurred a huge resistance too as in Brazil and the Czech Republic cases that blocked pension privatization.

Even in the reformer countries, there was no direct application of the Chilean model. Countries following this experience pursued their own way on the bases of the specific needs of their public pension system, as structural pension reform in Chile was radical in the sense that it changes the structure and nature of the system. Consequently, different reform outcomes occurred, but it is possible to classify the reform models on the bases of the common grounds.

To clarify the general models of public and private pension schemes, the differences between parametric and structural pension reforms should be noted first. Parametric pension reforms aim to strengthen public pension schemes by increasing retirement age, payroll taxes or changing the formulas calculating the pensions. But structural pension reform radically changes the system by introducing a new defined contribution pillar to compete with or addition to the public one that complements it, or by replacing totally the public one (Brooks, 2009; Mesa-Lago, 2001; Schwarz and Kunt, 1999). As a result of various ways of introducing the private pension pillar, there occurred three different private pension system models as discussed below.

Table 2.1 below demonstrates the general characteristics of public and private pension programs according to the classification of four features: contributions, benefits, financial regime and administration. Public pension system is based on non-defined contributions, defined benefits and public administration. It is financed as PAYG. Hence public pension system can be referred as defined benefit system as individuals earn what pension law calculates after a certain time of service. The contributions are non-defined because the contributions paid by active workers increase in time. Also the establishment of voluntary individual pension accounts did not change the organization and entitlements of existing public pension system as individual pension system serve as supplementary pension scheme for people who want larger pension and other benefits.

Table 2.1: Characteristics of Pension System Models

Model	Pension System	Benefit	Contribution	Financial Regime	Administration
Public (Social Insurance System)	Public Scheme	Defined Benefit	Non-defined Contribution	PAYG	Public
Substitutive	Individual Pension Account (Replaced public scheme totally)	Non-defined Benefit	Defined Contribution	FIF[1]	Private
Mixed[2] (Multi-pillar System defined by World Bank)	Two pillars system: Public Pillar + Individual Pension Account (Two pillars complement each other)	Defined in Public Pillar + Undefined in Private Pillar	Non-defined in Public Pillar + Defined in Private Pillar	PAYG + FIF	Multiple
Parallel	Separate Pension Schemes: Joining either Public or Private Scheme (Two schemes compete with each other)	Public Scheme: Defined Benefit, Private Scheme: Non-defined Benefit	Public Scheme: Non-defined Contribution, Private Scheme: Defined Contribution	PAYG + FIF	Public or Private

Source: Mesa-Lago, 2001; Social Security Programs, 2007 and 2008.

[1]FIF: Full Individual Funding
[2]In several countries, the pension scheme is a three pillar system which includes social assistance or voluntary individual pension account as the third pillar.

On the other hand, mandatory private pension schemes are composed of three different models which are substitutive, mixed and parallel models as seen in Table 2.1. Substitutive pension scheme is a private system that replaces totally the existing public system. In mixed model, public pension scheme is divided into public and private pillars to complement each other and contributing in both pillars are mandatory. In parallel model, a new private scheme is established to compete with the existing public pension scheme and participation in one of these schemes is mandatory. Differently than public pension scheme, these models are based on defined contributions, full individual funding and private/multiple administration with non-defined benefits. Private pension scheme is sometimes referred as defined contribution system because contributions are fixed at a certain level. The benefits are undefined, because individuals receive their pension based on what they contribute, the rate of return and market performance. Hence, pensions received from private schemes would depend on returns from individual accounts, contributions made by individuals to their personal accounts and administrative costs charged by fund administrators as well as market conditions (Kay, 1999; Mesa-Lago, 2001; Mesa-Lago and Arenas de Mesa, 2006; Mesa-Lago and Müller, 2002; Müller, 2000; Schwarz and Kunt, 1999). The next section discusses these private pension system models in detail in countries implemented pension privatization.

2.2. Transformation of Public Pension Schemes

Following structural pension reforms in Chile, throughout the 1990s and the 2000s, privatization wave surrounded most of the LACs like Peru (1993), Colombia (1994), Argentina (1994), Uruguay (1996), Bolivia (1997), Mexico (1997), El Salvador (1998), Costa Rica (2000), Dominican Republic (2003). It spread to EECs and also Central European countries such as Hungary (1998), Poland (1999), Latvia (2000), Bulgaria (2002), Croatia (2002), Estonia (2004), Slovakia (2005) and Romania (2008). Among LACs, Ecuador (2001) and Nicaragua (2004) suspended their structural pension reform packages due to the high transition costs and constitutional constraints. The rest of the LACs; Brazil, Cuba, Guatemala, Haiti, Honduras, Panama, Paraguay and Venezuela retained their public pension systems considering either parametric or structural reforms (Mesa-Lago, 2001; Mesa-Lago 2007; Mesa-Lago and Arenas de Mesa, 2006). Countries mentioned above privatized their pension systems in a similar line with Chile but including several significant differences. The investigation of these private pension systems indicates the three general models[6] of private pension systems discussed above (Mesa-Lago, 2001; Mesa-Lago, 2007).

Table 2.1 and Table 2.2 below complement each other in briefly explaining significant changes that reformer countries implemented to privatize their public pension systems. As seen in Table 2.2, the substitutive pension system adopted by Chile, Bolivia, Mexico, El Salvador, Dominican Republic, Latvia and Estonia is a private pension scheme with defined contributions that will not increase in time and non-defined benefits which depends on the market conditions. It is financially based on individual funding and administrated by private insurance authorities. As the future members have to join to the private pension system, the public scheme will be phased out in time. In several countries, this one pillar system is complemented with social assistance programs to provide a minimum pension for people who do not have any individual account and above 65 years old.

[6] For a slightly different categorization, see Kay and Kritzer, 2001; Haggard and Kaufman, 2008.

Table 2.2: The Changes in Pension Systems of Reformer Countries

Models	Country[1]	Date	Pension System	Participation	Employer Contribution[2]	Government Contribution[2]	Members	Previous Social Insurance System
Substitutive	Chile	1981	Individual Account	Mandatory	None	Guaranteed minimum pension	Future members must join to the new system	Phased out
	Bolivia	1997			None	Funeral Grant and Previous Pensions	All must join to the new system	
	Mexico	1997			6%	Guaranteed Minimum Pension		
	El Salvador	1998			6%	Guaranteed Minimum Pension	Future members must join to new scheme	
	Dominican Republic	2003			7%	Guaranteed Minimum Pension		
	Latvia[3]	2000			None	Finances the total cost of the state social security benefit	Younger than 30 must join to the mixed system	
	Estonia	2004			4%	None	Born after 1982 must join to the new system	
Mixed (Two Pillars System)	Argentina[4]	1994	Individual Account + Social Insurance	Mandatory	11%	Contributes through general revenue	May switch btw the schemes every 5 years.	Mixed with Individual Account
	Uruguay	1996			None	Finances pension deficits	All must join to the mixed system	
	Costa Rica	2000			4.5%	0.25% for Public scheme	-	

Table 2.2: Cont'd

Mixed (Two Pillars System)	Hungary	1998	Individual Account + Social Insurance	Mandatory	None	Finances the deficits of the system	Future members must join to the mixed system	Mixed with Individual Account
	Poland[3]	1999			None	Guaranteed Minimum Pension	All must join to the mixed system	
	Bulgaria	2002			1.5%	Finances the deficits of the system	Born after 1959 must join to the mixed system	
	Croatia	2002			None	Covers only expenses of some occupations	Under 40 must join to the mixed system	
	Slovakia	2005			9%	Finances the deficits of the system	Future members must join to the mixed system	
	Romania	2008			None	None	Under 35 must join to the mixed system	
Parallel	Peru	1993	Individual Account or Social Insurance	On Choice	None	Guaranteed Minimum Pension	May switch from Public to Private, not switch back.	Parallel
	Colombia	1994			11%	A partial subsidy to the solidarity fund	May switch btw schemes every 5 years up to the last 10 years before retirement.	

Source: Kritzer, 2002; Mesa-Lago, 2001; Social Security Programs, 2007 and 2008.

[1] Data about LACs is until 2007 and about EECs and Central European countries is until 2008.
[2]Values and information are simplified, for more information on employers' and governments' contributions see Social Security Programs, 2007 and 2008.
[3]In Latvia and Poland, rather than a reformed PAYG pension system, there are Notional Defined Contribution (NDC) Schemes.
[4]Argentina turned to social insurance system in January 2009 and transferred mixed pension system to public pension system.

The mixed pension system introduced by Argentina, Uruguay, Costa Rica, Hungary, Poland, Bulgaria, Croatia, Slovakia and Romania consists of both public and private pension schemes. Contributors pay premiums to both public and private schemes. Public pension scheme administrated by the state is the existing PAYG system though with parametric reforms and based on non-defined contributions. This tier provides a basic pension guaranteed by the state to provide a minimum income for the elderly and complemented by a private pension scheme which offers pension based on individually accumulated funds. This private component carries the typical features of private pension scheme described in substitutive model, except that administration is multiple in all featuring countries. The underlying logic of mixed pension system is to increase the amount of pension with the returns from private pillar based on the amount of contributions, at the same time providing a basic guaranteed pension from public pillar for risks of losing income. However contrary to LACs, in EECs the public pillar is larger than private pillar as big portion of the contributions go to the public tier.

The parallel model implemented by Peru and Colombia introduces private pension system to compete with the public pension scheme as individuals can join only one scheme. Public and private pension systems in these two countries carry the typical characteristics of respective schemes. However the difference between mixed and parallel model is the option in parallel scheme to choose either PAYG or individual pension account instead of contributing to the both system (Kay, 1999; Mesa-Lago, 2001; Mesa-Lago 2002; Mesa-Lago and Arenas de Mesa, 2006; Müller, 2000).

The transformation of public pension system to individual pension accounts reveals significant changes. In public pension system based on PAYG funding, active workers pay the pensions of the retirees and this intergenerational solidarity protects pensioners from changing market conditions like inflation or poor economic performance. The equal income distribution between pensioners is provided by certain pension calculation formula in the law regardless of savings in individual accounts. The risks of losing income are allocated by the state with defined benefits. Also defined benefits aspect of the public pension system guarantees a basic livelihood for contributors and thus eliminates their dependency on the market to survive. People in market economies depend on market to survive as they have to sell their labor to earn a living, but public pension system eliminates this dependency on market by providing defined benefits regardless of market performance. This dimension of social insurance provides decommodification of labor.

However, in the private pension scheme, contributions are allocated in individual accounts rather than paying the benefits of the retirees. The risk of losing income is individualized as the benefits depend on the market performance and the economic growth. The redistribution is left to the social assistance programs with means-tests, because benefits and contributions are linked to the individual capital accounts. However, the successful coverage of the vulnerable population by the means-tested social assistance programs is controversial. For people with lower income it is difficult to join a defined contribution system and this situation would create dependency of poor people on the social assistance schemes.

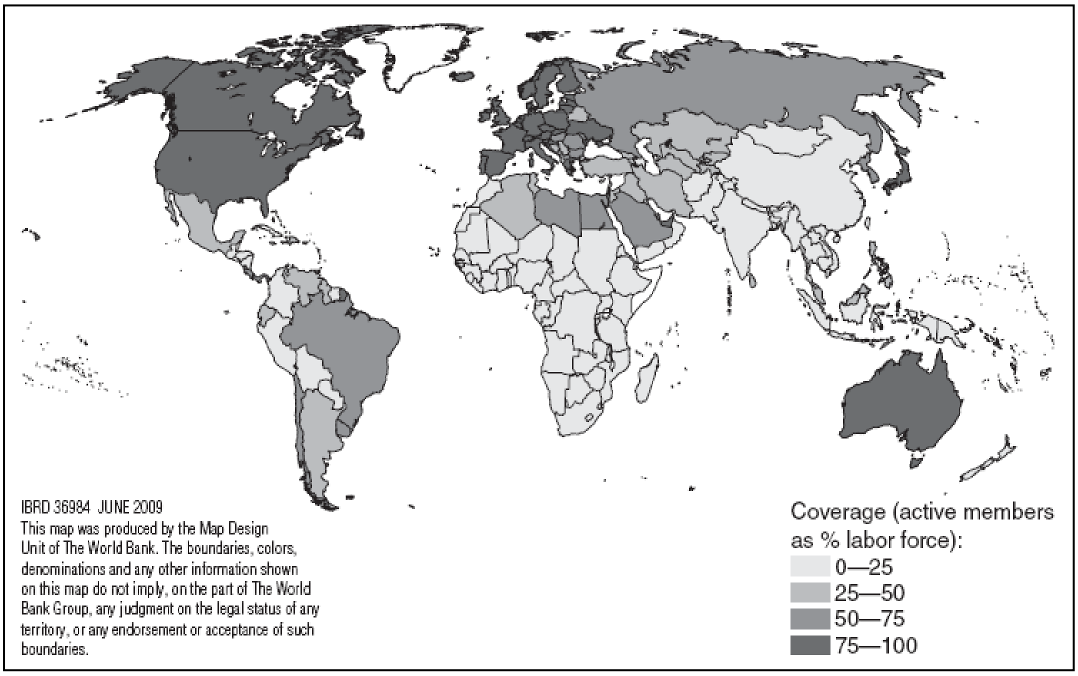
Moreover, as the benefits are non-defined, there is a risk of low returns because of poor economic performance and inflation whereas there is high return if there is economic growth and positive investment. More importantly, investing the individual savings in the market to receive higher returns reverses the logic of pension system by commodifying the savings, because it recreates the dependency of individuals on the market to receive pensions. Considering the inefficiencies and disadvantages of private pension schemes, governments take some measures. In LACs, anti-poverty programs and social assistance schemes target such problems to solve whereas in EECs governments established social safety nets for old-age and workforce and adopted universalism to meet public expectations. The elimination of the employers' and state contributions in several countries cause workers the only contributors in pension system and this situation leads to evasion of informal sector workers. Thus, it is most likely that population in informal economy and low income people would not be covered in a private pension scheme. Also privatization imposes transition costs on governments because governments would continue to pay the pensions and other benefits of the current retirees while active workers are no more contributing to the public system as they switch to the private scheme.

Conditions for a successful pension privatization were not attainable during the reform process in some of the reformer countries. In Chilean case, the government had used budget surplus to finance the burdens of transition and also decreased the government social spending on health and education services (Kay, 1999). Also the fiscal discipline in Chile ensured the sustainability of the reform. However most of the reformer countries were deprived of budget surplus and fiscal discipline. The research of Samwick (2000: 271) shows that domestic savings can increase if transition costs are compensated with higher taxes rather than debt, but most of the LACs and EECs used loans of the World Bank to cover the costs of the transition and got into debt. Especially in EECs the continuity in universal coverage and larger benefits increased the social spending and pension debts. According to several studies (Kay and Kritzer, 2001; Mesa-Lago, 2001; Mesa-Lago and Arenas de Mesa, 2006), the structural pension reforms in LACs have not generated expected labor force coverage and reduction in informal economy. Competition in private system does not work efficiently, the amount of capital accumulation depends on the time that the system has been active and fiscal costs of the transition would last in a period of fifty to seventy years.

The critical assessment of pension privatization reveals the difference of myth and reality in reformer countries. Although some argue that the privatization of public pension schemes provides positive socioeconomic effects, the empirical evidence from LACs falsifies these myths (see Mesa-Lago, 2002). It seems that although individual pension accumulation is a strong financial asset, privatizing public pension systems did not provide expected solutions for the problematic economies of LACs and EECs because even in Chile the government pension spending is quite high like 4% of annual GDP despite it has been a long time since the reform had been implemented. Pension coverage is lower than the expectations because private schemes did not attract new participants especially in pension schemes with a choice to opt out (O'Neil, 2007) as also Figure 2.1 below demonstrates. Differently, although in EECs there is informal economy emerged in the transition period; the adoption of universal coverage decreases the evasion problem to some extent. In EECs, better transparency and good regulation eliminated the some of the problems that LACs faced with in private pension systems.

Figure 2.1 below indicates the worldwide pension coverage of active workers during the early 2000s. According to this figure, pension coverage in LACs is significantly low compared to other regions as only Chile and Brazil have the most coverage in between 50% to 75%. Other than these two countries, the coverage of active workers in the labor force in the region is below 50%. However EECs are in better shape than LACs as the coverage of active workers is between 50% to 100% percentile. The better shape of EECs would be a result of higher GDPs, better market performance and EU criteria for adjustment besides the embracement of universalism. This comparison not only shows that private pension schemes in LACs did not attract more participants contrary to EECs, but also the relationship between pension coverage and economic performance.

Figure 2.1: World Wide Pension Systems Coverage
(Measured by active members of mandatory pension systems as a share of labor force)



Source: Holzmann et al., 2009: 29.

Especially the economic crises in the 1990s and the 2000s modified the belief that individual pension accumulation leads to more savings and capital growth, as revenues of pension system is associated to performance of the labor market. Because when there is reduction in employment, there will be a decrease in the active workers coverage. So, the growth of domestic income will decrease and eventually there will be a reduction in pension revenues (Miceli and Salto, 2008). Thus it would be argued that the private pension schemes have more coverage when there is economic growth and good market performance as in the case of EECs and other developed countries in Figure 2.1, because better financial conditions would delay retrenchment in welfare benefits. Moreover the high pension coverage in EECs is also the result of governments' commitment to universalism and provision of social safety nets to meet with the public expectation. Such factors are discussed below in details and in case analyses in the following chapters.

2.3. The Principal Determinants of Structural Pension Reforms

It is debated that what kinds of factors led Latin America and Eastern Europe countries to choose privatizing their pension systems which caused huge resistance and high transition costs for governments compared to reforming existing PAYG systems unless they run a budget surplus. Politicians and business favored structural pension reforms as it promises an increase in national saving, capital accumulation, and labor coverage whereas pensioners, workers and labor unions are strongly resisted because they would lose some certain benefits. But it is a reality that despite resistance, a significant number of countries approved pension privatization. Thus who benefits from PAYG system and who gain from privatization becomes important because relevant political and institutional actors become evident in the reform process as they either try to block or support structural pension reforms.

Research on this issue analyzes pension privatization process in either institutional level focusing on political structures and actors or micro-level. Former analyses investigate institutional and political factors such as macroeconomic situations, international financial institutions (IFIs), the influence of interest groups, and the context of political regimes in terms of level of democracy, welfare legacy, electoral constraints, and majority of the government seats in the parliament to explain how these factors are effective in pension privatization whereas micro-level analyses explore the individual bases of approving such kinds of reforms. Certainly there is a cognitive process shaping policy makers' minds to favor privatization of pension schemes. Although this approach indicates causality between cognitive shortcuts of policy makers and pension privatization, it does not explain how other domestic factors affect the reform outcome. Thus, in this research I take a different stand and make institutional level analysis with a focus on political structures and actors rather than individual level analysis to discuss the pension reform outcome. I explore the domestic political environment to explain how and to what extent political institutions and actors are effective in the political debate of pension privatization. In this vein, starting with individual level and continuing with institutional level and actor-oriented analysis, the next discussion reveals an analytical framework of principal factors that lead to adoption of pension privatization in Latin America and Eastern Europe countries.

2.3.1. Cognitive Heuristics

Policy diffusion is one way of explaining the spread of pension privatization across countries and regions through cognitive heuristics. According to the cognitive heuristics approach (Weyland, 2005; Weyland, 2006a; Weyland, 2006b), Chilean case provided the heuristics of availability, representativeness and anchoring for policy-makers to rely on a model. The availability heuristics provides a point of reference in the reformation of pension systems as pension privatization in Chile occurred as a successful case. The countries had an ongoing tendency to apply structural reforms on pension system, because countries have learnt from the Chilean case that privatization of pension schemes yields high rates of economic return and growth which points out representative heuristics as it led policy makers to be interested in the diffuse of pension privatization. The anchoring availability leads limited modification on the referenced model in diffused countries and so increases the similarity of the implemented reforms. As a result of these cognitive shortcuts on policy makers, radical pension reform in Chile is diffused among LACs first and then spread to Europe.

According to Weyland (2005; 2006a; 2006b) the real promoters of the pension privatization were Chilean experts, and IFIs' experts only contributed to the process. The success of Chilean model of privatization and the heavy burden of PAYG systems on the government drove other Latin American countries to privatize their public pension systems. Thus, several Chilean experts were appointed as advisors for pension reforms in other LACs. As other LACs had been struggling with their financially unsustainable and costly public pension systems, the success of Chilean pension model attracted their attention. They got advice from Chilean experts while they were designing their pension reforms. Thus, these studies argue that although policy makers have choices to favor other kinds of reforms, their rationality is bounded with cognitive shortcuts of Chilean pension model which questions the rationality of political actors.

Although cognitive heuristics approach explains well how some countries had learnt from pension privatization in Chile, it is not convincing in explaining why some other countries did not approve privatization. It does not explain why cognitive shortcuts worked on some countries to favor structural pension reforms but not on resisted countries and why there are resisting countries. Thus it neglects the role of the political system accomplishing the privatization of pension schemes. It does not clarify whether influence of Chilean experts would lead privatization of pension schemes in cases that the governments do not have liberal orientation. Pension privatization is in general accomplished as a part of liberalization process in reformer countries. Certainly the influence of liberal technocracy in policy making is a factor shaping the outcome, especially in the presence of economic crises. Hence, I investigate the influence of neo-liberal technocrats as a relevant factor in pension privatization together with other political and economic determinants in an analytical framework rather than examining how they teach Chilean model of pension reform to other countries. As in the cases of Brazil and the Czech Republic, the interference of technocrats is hindered by bureaucrats in ministries of social affairs and unions' movements. Thus it would be a mistake to consider only the influence of Chilean experts regardless of political and economic structures of the reformer countries that neo-liberal technocrats act in.

Considering the inefficient explanation of cognitive heuristics approach, I investigate economical and political factors leading privatization of pension systems in a framework. Several studies argue that the structural pension reforms during the 1980s and the 1990s in the Latin America and in the Eastern Europe are driven by economic conditions, levels of democracy and welfare legacy. They claim that negative economic growth and structural conditions led to contraction in pension systems (Mares and Carnes, 2009). The opposition to pension privatization in LACs and EECs is explained by the retrenchment of pension benefits as people and interest groups were benefiting more from the existing policy legacy (see Haggard and Kaufman, 2008). Some studies argue that the privatization reforms are driven by the aspects of globalization such as capital market liberalization and economic conflict situations as such conditions increase the influence of neo-liberal technocrats and ministries of finance (Brooks, 2009, Müller, 2000). Also, the levels of democracy are associated with the levels of privatization inversely (Mesa-Lago and Müller, 2002) and the actors' actions are investigated regarding the institutional constraints and the space left to interest groups to maneuver (Kay, 1999).

In this vein, I formulate an analytical framework including many of the factors discussed in the literature and examine their relationship with pension privatization. I argue that the World Bank as an external factor and domestic determinants such as macroeconomic factors including the crises of economic systems and pension systems, the influence of interest groups and the context of political regime in terms of level of democracy, welfare legacy, electoral constraints and the strength of the ruling party in the parliament are significant factors leading to privatization of pension schemes. Cognitive heuristics approach does not create a pattern, because it explains pension privatization in every case with different factors by looking at the minds of the relevant actors. Thus I examine political and economical factors rather than micro-level foundations of these factors.

2.3.2. Macroeconomic Factors: Situation of Economic System and Pension System

Economic performance has important implications over pension policy as growth rates and economic crisis are determinants in the continuity of commitments whether to enhance or retrench and the design of reform model (Mesa-Lago, 1997). Governments tend to make more comprehensive privatization reforms when they have financial crises or a shortage of domestic capital (Haggard and Kaufman, 2008). Privatization of pension systems is driven by not only the macroeconomic crises, but also other economic policies like reconstructing investment in order to ensure stability and increase domestic saving rates as the payments to private pension system can be saved instead of paying pensions of the retirees. When the revenue is little or negative, there would be more radical pension reform as social spending or state's capacity for more benefits would decrease (Madrid, 2002). Financial constraints limit the governments' capacity in social spending. Hence states tend to implement more radical structural reforms to reduce their liabilities as their priority become ensuring macroeconomic stability. Conversely the good economic indicators encourage states to expand welfare benefits rather than retrenchment and increase public expectation for more social spending (Mesa-Lago and Müller, 2002).

Especially in crises, the influence of neo-liberal technocrats becomes more intense and for the sake of macroeconomic stability they advocate state's retrenchment in public pension system as it is costly and would increase instability. Severe economic conditions and recessions require urgent reforms if public pension scheme is also financially unsustainable. The debts and financial problems of public pension system cause the interference of ministries of finance that generates pressure for structural reforms in the system (Haggard and Kaufman, 2008; Müller, 2000). Thus economic conditions are also essential in the approval of pension privatization and determining its model. For this reason I argue that financial difficulties of economic systems and public pension systems lead policy makers to consider structural reforms rather than parametric reforms as they think problems of pension systems are the consequences of their generous benefits and PAYG funding. In the following chapter, I argue that how macroeconomic crises and unsustainable public pension schemes led privatization of pension schemes in case-analyses.

2.3.3. The Context of Political Regime

Privatization of pension systems in Latin America pioneered by less democratic political regimes with high degrees of economic liberalization (Mesa-Lago, 1997). When Chile approved privatization of public pension system as the first, the main reason behind this structural pension reform was attributed to the authoritarian aspect of the Pinochet regime. The less democratic the state, the more privatization of the public pension system is more likely as in democratic states, stakeholders and interest groups can force liberal oriented governments to negotiate and take concessions. If the political regime is more authoritarian with liberal orientation, it is more likely that it would suppress the pressure of interest groups and institute privatization of pension schemes according to its own discourse.

However throughout the 1990s, the privatization of public pension systems took place also in democratic states of Latin America and Eastern Europe. In the presence of more democratic regimes, pension privatization is introduced in mixed and parallel models. It is seen that there is no direct replication of Chilean model.

Instead, there are three general models of private pension schemes as democracies left space to unions and pensioners to influence the reform outcome (Madrid, 2002; Mesa-Lago, 1997; Mesa-Lago and Müller, 2002). The democratic regimes with generous welfare legacy are more prone to meet with strong public opposition towards structural reforms as people do not want to lose certain benefits (Haggard and Kaufman, 2008). Public expectation becomes electoral constraint in more democratic countries, especially if the coverage is high. Thus, welfare legacy and electoral constraint can constrain the size of structural pension reforms. Under such circumstances, democratic governments choose to negotiate with pensioners, unions and other interest groups and sometimes give concessions to stakeholders to receive public support for pension privatization (Müller, 2000). Thus, the level of democracy is determinant in pension reform as it provides opportunities for the interference of interest groups and public, and increases the responsiveness of the governments to meet the public expectation dependent on the welfare legacy and to get electoral support.

Besides these factors, ruling party's share of seats is also essential in determining the reform model. For instance, ruling party's power on the legislature is significant in privatization as such a power provides an opportunity for the government to control the legislature. In policy making, political leaders need to have enacting capacity for privatization such as having majority of the seats in the parliament, because legislation of privatization is not popular enough to get support from other parties. Thus having the capacity to enact structural pension reform by the majority of seats provides an opportunity for the government to decide the reform design according to its own vision (Kay, 1999; Madrid, 2002; Mesa-Lago and Müller, 2002).

2.3.4 Influence of Interest Groups

Private pension schemes transfer the risk from state to workers and workers would lose if their investment returns of their pension accounts are low. Thus, workers become vulnerable to the instability of the market and economic downturns. Because of these reasons, labor unions and pensioners' organizations make demonstrations, protests, strikes and lobbying to block the privatization process. Their political strength would shape the reform process. However, unionization rate which is calculated by union density does not necessarily entail interest group strength statistically. In several cases although there is a high rate of unionization, policy makers succeeded in legislating pension privatization. This is maybe because unionization rate variable ignores a substantial tie between policy makers and labors (Madrid, 2002). Interest group intensity in terms of union density is not enough to explain policy outcomes in several cases, because the extent that political institutions leave space for interest groups to affect policy outcome is more determinant. In other words, despite great resistance and opposition to privatization from labor unions and pension receivers, government could realize it when interest groups cannot act as veto players (Kay, 1999). Veto players approach (Kay, 1999) explains how political institutions provide opportunities for interest groups to affect policy making process. While neo-liberal technocrats and business groups support privatization of pension schemes, on the other hand pensioners, workers and civil society organizations oppose such a reform. Thus especially opposing interest groups seek opportunities in the policy making process to block or to shape the reform according to their interests.

Differently than France, Norway and Sweden where there is a nationwide dialogue between employers and labor unions, in LACs there is lack of political concertation. Thus governments implemented pension privatization by means of lack of concertation which prevented interest groups to act as veto players (Kay, 1999). However in EECs, bureaucrats in ministries of social affairs and labor, pensioners and labor unions were influential in shaping the reform outcome. Labor unions and pensioners negotiated with policy makers and received concessions. In several cases Constitutional Court decisions, corporatist governments and strong union movements delayed pension privatization which strengthened the hands of stakeholders to get concessions (Haggard and Kaufman, 2008; Müller, 2000). In this vein, despite high density, interest groups may not affect the policy outcome if they cannot act as veto players. In the case analyses, I argue that influence of interest groups is significant in shaping the reform outcome if political context leave space to them to act as veto players.

2.3.5. The Influence of the World Bank as an IFI

International Labor Organization (ILO), the Inter-American Development Bank (IDB), IMF and The World Bank are influential external actors in enabling pension privatization through recommendation, technical and financial assistance. The financial problems of PAYG systems and economic crises caused the interference of economic concerns into the pension policy which led International Financial Institutions (IFIs) to propose reform models enhancing macroeconomic stability or opposing the inclusion of such concerns (Mesa-Lago, 1996). As during the 1990s most of the developing countries began to consider pension reforms, these institutions involved in the reform process by proposing strategies or advices on reforms. For instance, ILO published report opposing to the implementation of structural pension reforms, whereas IDB assisted LACs, which wants to implement pension privatization, through consulting, projects and funding (see Oliveira, 1994).

Besides these institutions, IMF also supports pension privatization as a part of liberalization process, but it is more concerned with the financial costs of the reform design. So that it does not advice structural pension reforms in every case, because economic stability of the countries is more important. But it did not hesitate to provide credit to finance pension privatization when countries required (Madrid, 2002). Differently, the World Bank (1994) report advocates privatization of pension schemes as it increases domestic saving rates and economic growth. This assertion became a major incentive to prefer structural reforms for countries in economic crises and considering pension reforms. Especially countries with huge external debt are more depended to the financial assistance and credits of IFIs and such a situation creates opportunity for IFIs to interfere in domestic policy making.

In general the World Bank promotes privatization of pension schemes as the World Bank experts argue that private pension scheme is the only remedy to solve the problems of public scheme as individuals would receive more when they save their contributions in the market than in public schemes (see Schwarz and Kunt, 1999). Although there are studies critically arguing that structural reforms did not fulfill the expectations that the World Bank foresee (see Singh, 1996), the World Bank experts claim that the transformation of public pension schemes to private ones has not completed and private pension schemes need revision to achieve their ends in terms of more equity and coverage. Thus it would be a mistake to turn back to public schemes which generated many difficult social and economic problems and to consider the transformation of private schemes is finalized (Mesa-Lago, 2007). The

World Bank appears as the most influential IFI as it involved in every reform process of the case analyses in this study. Thus the analyses in case-studies in the following chapter indicate the influence of the World Bank as an IFI on the implementation of pension privatization through its publications, reports and bilateral agreements.

2.4. The Conclusion

The spread of pension privatization in Latin America and Eastern Europe is significant to discuss in order to determine the principal factors enabling full, partial or no privatization. First two sections of the chapter explain the brief history of structural pension reforms and the transformation of pension systems. These sections reveal the significance of pension privatization in the literature. The last section explains the principal determinants of enabling structural pension reforms which are discussed in details in the next chapters within the cases of Latin America, Eastern Europe and Turkey.

As public pension systems mature, they become financially unsustainable due to demographic changes, huge benefits and low ratio of active workers to retirees. Whereas most of the countries continue with the public pension system though with parametric reforms, in 1981 Chile implemented a radical structural reform for its public pension system to solve the financial problems of pension scheme. However until Chile restored its democracy and approved private pension scheme in early 1990s, this model did not attract attention from other countries. The success of private pension scheme in Chile became a role model for other developing countries experiencing financial problems of public pension systems.

As a result, privatization of pension systems spread to Latin America and Eastern Europe changing the nature and the structure of the pension system. Rather than replicating the Chilean model, the application of pension privatization across countries reveals three general private pension schemes as substitutive, mixed and parallel. Schemes turned from defined benefit systems to defined contribution systems and the risk of losing income is individualized. As discussed in the chapter in details, the transformation from public pension scheme to private scheme reversed almost every dimension of the public scheme as the logic of privatization is totally different from public systems.

In this sense, I wonder what drives developing countries with unsustainable public pension scheme to favor structural reforms in order to solve the problems of pension systems. Thus, the examination of cases approved pension privatization indicates several economic and political determinants enabling structural pension reforms. Macroeconomic situations including the crises of economic systems and public pension systems, the context of political regime, the influence of interest groups and the influence of the World Bank are effective factors in shaping the reform outcome. The next chapters tests the explanatory power of these factors in Latin America and Eastern Europe that approved full or partial pension privatization including Brazil and the Czech Republic that did not institute pension privatization similar to Turkey.

CHAPTER 3

PRIVATIZATION OF PENSION SYSTEMS IN COUNTRIES OF LATIN AMERICA AND EASTERN EUROPE: THE EFFECTS OF PRINCIPAL DETERMINANTS

The 1980s and the 1990s were the years of democratic and economic transition realized in Latin America and Eastern Europe as well as in Turkey. In both regions the economic crises and enhancement of liberal democracy paved the way for structural reforms to ensure macroeconomic stability and adjustment through waning of state role. Pension system which is the most costly social security scheme was causing instability with its own deficits and financial crisis. Especially pension systems with wide coverage and larger benefits were targeted to the structural pension reforms to reduce the liabilities of the government and deficits of the system. In this way, domestic capital markets would be developed and national savings rate would be increased in the long run (Haggard and Kaufman, 2008).

In crises situations, neo-liberal technocrats, ministries of finance and private sector press for pension privatization in a similar line with the Chilean model while labor unions and pensioner associations strongly oppose structural pension reforms not to lose benefits. Moreover such a transition from PAYG system to private pension scheme is costly and complex causing the interference of IFIs through financial and technical assistance. The response of countries with authoritarian regimes to such pressures was in the form of establishing substitutive private pension systems by phasing out the old public tier. But consisted with the increasing level of democracy, the level of privatization is decreased. In Chile and Mexico, where there are authoritarian and semi-democratic regimes, more radical pension privatization is realized as such regimes had the ability to prevent interest groups and stake holders to act as veto players. In Argentina, Hungary and Poland where democratic transition is more complete, pension privatization introduced partially with larger public tier and guaranteed protections for the old-age and workforce. In Latin America, most of the reforms realized through compromises with the interest groups, but in Eastern Europe, welfare legacy and electoral constraints ensured safety nets and sizeable public pension scheme supported by the government.

This chapter proceeds the discussion by grouping the cases according to the reform outcomes. First section investigates Chile and Mexico on the basis of four principal determinants in order to understand how these countries enacted full privatization of public pension systems. The second section discusses Argentina, Hungary and Poland that instituted partial pension privatization according to analytical framework. The third part explores Brazil and the Czech Republic that did not institute pension privatization. The classification of cases according to the reform outcomes provides comparison to discover similar patterns and differences for the fourth section. In this last section I briefly summarize the case analyses according to the analytical framework and compare significant differences and similarities between cases to indicate which factors are more significant than the others in enabling pension privatization and determining its level.

3.1. Countries that Instituted Full Pension Privatization: Chile and Mexico

The crises of the 1980s led governments to drop ISI model and embrace neoliberal economic policies including the area of social security. Especially reforming the pension systems was on the agenda as the systems became unsustainable due to the aging population, debts, evasion and insufficient contributions compared to benefits (Koichi, 2003). Chile implemented full pension privatization through substitutive model first and became a role model for other countries throughout the 1990s on pension reform. Its reform outcome diffused in Mexico that privatized fully its pension system including differences from Chilean model.

3.1.1. Chile

In 1973, Augusto Pinochet had made a coup d'état and established an authoritarian military regime which banned all political parties, trade unions and suppressed pressure groups and civil rights (Mesa-Lago, 1997; Mesa-Lago and Müller, 2002). As the new regime had put restrictions on interest groups, the government achieved privatization of pension system without facing a serious opposition. In 1981, Chile was the first country implemented full privatization of public pension system by phasing out the old system. It established an individual pension account scheme (substitutive model) which is based on full individual funding and managed by private administrators by replacing bankrupt public PAYG scheme (Kay, 1999; Mesa-Lago, 1997).

During the 1970s, the public pension system provided generous benefits and covered 76% of economically active population (including pension assistance) which was one of the highest coverage rates in Latin America (Mesa-Lago, 1997: 509). However, the actual coverage was around 64% of the economically active population

(Mesa-Lago and Arenas de Mesa, 2006: 151). The pension system was highly fragmented and unfair as it was composed of many small pension funds and provided privileged and unequal benefits. The public pension scheme was financially unsustainable as it was paying not the adequate but minimum benefit to 93% of pensioners by 1980 and heavily in debt (Kritzer, 2000: 19). Its expenditures were equal to the 17% of GDP and state was subsidizing almost 30% of its costs (Mesa-Lago, 1997: 509). Thus, the system was required an urgent reform to create a self-sufficient pension scheme, and eliminate privileges and inequalities.

In addition, the macroeconomic instability and recessions during mid-1975 contributed to the radical reform outcome. With the crises, the influence of neo-liberal technocrats increased and they blamed public pension system as a source of instability and increasing the costs. In fact, by 1979, the neoneo-liberal technocrats placed in key positions of ministries and administrations, and consolidated their power over the state to initiate not only pension reform but also a broader economic structuring (Borzutsky, 1998). Jose Piñera who is the architect of pension reform in Chile was the neoliberal minister of Labor from 1978 to 1981 and close to Chicago Boys, a group of neoliberal economists in charge of Chile's liberalization process (Mesa-Lago and Müller, 2002). He believed that public pension system could not generate social solidarity, and became a source of inequalities and insufficiencies which was required to be replaced by a system based on the linkage between individual effort and reward (Borzutsky, 1998: 38). The experts advocated pension privatization as it would increase low domestic saving rate by contributing to the development of capital markets and economic growth as the contributions in individual accounts saved rather than paying the benefits of the retirees (Madrid, 2002). Thus, neo-liberal technocrats aimed to eliminate bankrupt public pension system with total privatization as they blame it being a source of instability on macroeconomic situation.

Before the coup, the reform of the public pension system could not be realized due to the strong opposition of labor unions and pensioners who did not want to lose the benefits and privileges (Mesa-Lago and Müller, 2002). For this reason, in Chile, the legislation of the radical pension reform attributed to the authoritarian political regime. A total privatization took place when the military regime banned the political parties, suppressed the influence of interest groups and civil society organizations which empowered the authoritarian government as the only actor in privatization process (Mesa-Lago, 1997). Besides authoritarian regime that blocked the channels for stake holders to oppose radical structural reform, between the 1970s and the 1990s, the decline in public employment also decreased union density and weakened union movement (Haggard and Kaufman, 2008) which lessened the strength of labor opposition to radical pension reform and prevented them to act as veto players in reform process.

However in the early 1990s, Chile restored democracy and the new government continued with the private pension scheme. The approval of the democratic government to sustain private pension system demonstrated that such a system can be maintained also in a democratic government. The new democratic government approved private pension scheme despite it was established under the authoritarian rule, as they aimed to maintain economic stability and investors' confidence (Borzutsky, 1998; Mesa-Lago and Müller, 2002). However, besides the choice of government, during the 1990s, the neo-liberal technocrats came to power in Pinochet era were still influential in policy making holding power to veto. These technocrats remained in power in key positions of central bank, ministries of economy and social security were effective in the continuity of the private pension scheme (Borzutsky, 1998; Haggard and Kaufman, 2008). But the influence of technocrats on social policy was limited as strong growth and the development of middle and upper classes prevented democratic governments from retrenchment (Haggard and Kaufman, 2008).

It seems that the macroeconomic crises and the bankruptcy of public pension funds during the 1970s increased the influence of neo-liberal technocrats and the authoritarian rule enacted such a radical pension reform with ease through suppression of labor unions and pensioners. However in the 1990s when the democracy was restored, the absence of the crises limited the power of neo-liberal technocrats for more privatization. Also, the successful management of the private pension funds increased public satisfaction which ensured the legitimacy of pension system in public. The new reforms on pension system during the 1990s made for more transparency and safety (Haggard and Kaufman, 2008). There was no serious structural modification of the pension scheme. Not only the choice of government, but also the good performance of private pension system and the popular support contributed to its continuation under the democratic regime (Mesa-Lago, 1997: 510; Mesa-Lago and Müller, 2002).

3.1.2. Mexico

During the 1980s, the social insurance system became financially unsustainable because of lost in the reserves due to hyperinflation, severe debt crises and high pension expenditures (Mesa-Lago and Müller, 2002: 697). By the early 1990s, the system required a serious pension reform as contributions were not covering the benefits because since 1943 contribution rates rose only three times but benefits increased forty times and the dependency ratio was about 1.25 (%125) due to the low coverage. The coverage of the system was about 37% of the economically active population (Mesa-Lago and Arenas de Mesa, 2006: 151) and 40% of the labor force was working in informal sector (Kritzer, 2000: 31). Large payroll taxes created evasion problem as it led workers to prefer informal sector. But on the other hand, payroll taxes were not enough to compensate generous benefits (Valdés-Prieto, 2007a: 6).

The macro-economic situation was not bright either due to the high inflation, huge debts and low liquidity as in the case of Argentina during 1980s. Macroeconomic instability and crisis increased the influence of neo-liberal technocrats and in the early 1990s, they were assigned top positions in economic ministries and allied with social security institution which consolidated their power. Under Salinas and Zedillo governments of the PRI, dominant political party in Mexico, technocrats initiated privatization and liberalization program which also focused on pension system (Haggard and Kaufman, 2008). In 1990, the ministry of finance and the Central Bank took the advice of the World Bank to implement a structural pension reform similar to Chilean model (Mesa-Lago and Müller, 2002: 697-8). Hence, in 1992 the government instituted a supplementary individual pension scheme (SAR) to prevent the failure of the PAYG system. But the system failed to meet the expectations as it was devoid of regulation, administration and incentive to contribute (Kritzer, 2000: 32; Mesa-Lago and Müller, 2002). By 1995, policy makers understood that the pension system would be out of reserves by 2004 (Mesa-Lago and Müller, 2002). Thus, policy makers considered a reform similar to Chilean model, especially after the peso crisis in 1995 and the new substitutive system replacing the old pension scheme implemented in 1997 (Haggard and Kaufman, 2008).

In late 1994, the Mexico struggled with financial crisis which was driven by the decrease in domestic savings equal to 7.5% of GDP since 1984. In order to overcome recession and vitalize economic growth, the government focused on enhancing macroeconomic stability (Valdés-Prieto, 2007a). As in the Argentinean case, Mexican policy makers believed that pension privatization would contribute to the development of capital market and savings rate. According to Guillermo Ortiz, who was the minister of finance, for the future development of Mexico there should be a much higher savings rate which would be provided by pension privatization (Madrid, 2002: 164). These objectives also indicated in the preamble of the reform law (Mesa-Lago and Müller, 2002: 709). Thus Mexico enacted pension privatization when it suffered from serious capital shortage in 1995. This also explains that dreadful economic situations led high level of privatization closer to Chilean model rather than moderate pension privatization as in Argentinean case (Madrid, 2002: 174). The radical pension reform of Mexico was mostly driven by macroeconomic crises rather than financially unsustainable public pension system.

At this point, the World Bank was an influential external actor as its perspective on pension reform influenced Mexican policy makers. the World Bank argued that pension reform had to contribute to the development of capital market and therefore it advocated “fully funded, defined contribution and privately managed” individual pension account system. The assistance of the World Bank was appreciated by most of the Mexican officials. The reform outcome was similar to the model that the World Bank proposed and the costs of the reform were covered through its financial assistance. It supported pension privatization financially by two large structural adjustment loans in 1995 and by recommendation through an analytical study of policies to increase domestic savings rates. (Valdés-Prieto, 2007a: 22-33). Accordingly, Mexican policy makers were adopted the the World Bank perspective on pension reform and they thought that only structural pension reform would create a sustainable economic system and also a pension system.

In Mexico, there is a corporatist style of government that brings government, business and workers together in policy making. Thus labor unions were politically active during the reform process. They opposed pension privatization, but lacked sufficient power to block the process as there was no unity and coalition among labor unions and pensioners' organizations. Instead, they allied with employers' associations and government which created a traditional tie with the ruling party that bypassed the resistance of labors to pension privatization. While pension debate was going on, the most powerful labor union in Mexico, CTM allied with USEM (Mexican employers union) and proposed a pension reform which was mostly instituted by Zedillo government in late 1995. This collaboration indicates as if pension privatization legitimated within three sectors (Mesa-Lago and Müller, 2002).

Although Mexican public pension system was fully privatized similar to Chilean model, it was embraced with several concessions given on behalf of the opponents. Labor unions were successful to take several concessions in terms of contributions, management and transition costs (Haggard and Kaufman, 2008: 270; Mesa-Lago and Müller, 2002: 698-9). However despite the corporatist nature of the political system, the deficiency of unity and coalition among labor unions and pensioners prevented them to exercise the veto power against full pension privatization.

The radical pension reform was implemented due to the strong government of PRI which was the dominant political party in Mexico during the whole 20th century and indicating a semi-authoritarian figure in policy making. Zedillo government approved full pension privatization when it was holding the majority of seats in the parliament (Madrid, 2002: 175) which indicates the domination of ruling party over legislature. Also in the government, there was no serious objection to pension privatization. Ministry of finance and social security bureaucracy were allies and agreed on that pension reform needed to contribute to macroeconomic stability and domestic savings rate as discussed above. Thus the legislation of substitutive pension model in Mexico was driven by two major factors, severe economic recession in 1994 that increased the interference of liberal technocracy and dominant Zedillo government that allied with major business groups and labor unions.

3.2. Countries that Instituted Partial Pension Privatization: Argentina, Hungary and Poland

Although Chilean case was a role model for countries in the implementation of pension privatization, it diffused at different levels among countries due to variation on principal determinants. The discussion below explains how variation on determinants affected the pension reform outcome in Argentina, Hungary and Poland which implemented partial privatization in the form of mixed model.

3.2.1. Argentina

By the 1980s, the Argentinean public pension system covered almost 80% of the economically active population and provided generous but unequal defined benefits which were later not paid due to the bankruptcy of the pension funds (Kritzer, 2000: 23; Mesa-Lago, 1997: 510). Through the ends of 1980s, 35% of the pension expenditures were subsidized by the government and it was expected to be doubled by 2025. The real deficit of the Argentinean system was worse than Chilean system compared to periods before pension reform implemented (Mesa-Lago, 1997). By 1990, the dependency ratio of pensioners to contributors raised from 39% to 62% and the actual rate of pension coverage was around 50% of the economically active population (Martino, 2007: 2; Mesa-Lago and Arenas de Mesa, 2006: 151). By 1992, the government was covering a significant part of the pension expenditures equal to 7% of GDP. Besides the unequal coverage and benefits among provinces of the federal government, the aging and maturity problem of the PAYG system increased the urgency of the reform (Isuani and Martino, 1998).

Throughout the 1980s, the collapsed public pension system in Argentina could not be reformed even under the authoritarian rule and later in a weak democracy due to the reluctance of policy makers to implement such an unpopular reform and to confront with opposition of labor unions and pensioners (Mesa-Lago and Müller, 2002). In 1989, Carlos Menem came to power in the middle of economic crisis and hyperinflation. The technocrats assigned under his presidency introduced Convertibility Law in 1991 which ended hyperinflation and thus contributed to both the popularity of Menem and neo-liberal technocrats (Haggard and Kaufman, 2008). After maintaining macroeconomic stability, the structural pension reform became main concern for technocrats. Not only the fiscal problems of pension system, but also the macroeconomic crises and hyperinflation in the late 1980s contributed to the implementation of a radical pension reform as privatization of pension scheme would decrease the fiscal costs of the system that state struggled (Martino, 2007). Thus, the government confronting with severe economic crises and a bankrupt pension system chose to retrench as the priority became maintaining macroeconomic stability and fiscally unsustainable PAYG system was deteriorating economic stability.

Besides containing the fiscal costs of the system, policy makers also assumed to develop capital market with pension privatization. Argentinean technocrats believed that pension privatization would increase domestic savings rate and reduce the debt of existing pension scheme (Haggard and Kaufman, 2008). According to a former undersecretary of social security, the pension privatization in Argentina was enacted to reconstruct investment and savings. Technocrats who were influential in the reform process stressed that increasing domestic saving rates was one of the objectives of the reform (Madrid, 2002: 164).

For these reasons, the Menem government started a negotiation process in 1992 with labor unions and pensioners organizations in order to discuss the aspects of the pension reform and to decrease the direct opposition to a complete reform (Isuani and Martino, 1998; Mesa-Lago and Müller, 2002). When the reform proposal presented, there was an ongoing public debate increased with the mobilization of pensioner organizations and labor unions that were also supporting the reform of pension system. Whereas finance and business circles were supporting Chilean model of pension system (substitutive model), labor unions and pensioners organizations were highly mistrusted to such a system (Mesa-Lago and Müller, 2002). Thus, the most significant objection to reform proposal was based on the doubts on Chilean model of pension system followed by suspicions on the rates of returns and high administrative costs. After hot debates and negotiations between parties for two years, they reached compromise and the mixed model based on multiple administration implemented in 1994 (Haggard and Kaufman, 2008; Isuani and Martino, 1998). The mixed pension system was instituted though with reformed public tier and private tier close to Chilean model (Mesa-Lago and Müller, 2002). It is argued that Argentinean mixed system is the democratic version of Chilean model as it was implemented after two years of political debate in the parliament (Müller, 2002: 163).

It seems that among macroeconomic factors, the state of public pension system was more determining on the reform outcome as partial privatization is instituted rather than substitutive model. In the former chapter, I argued that the severe economic crises drive more radical pension reforms as governments choose to retrench and stabilization gains priority. But in the Argentinean case, the huge debts of pension system and relatively high dependency ratio would cause huge transition costs in case of full pension privatization that would threaten macroeconomic stability. Thus, the mixed model (partial privatization) was more favorable considering the costs.

Besides economic factors, the negotiations between government and the interest groups also shaped the reform outcome. Although pensioners’ organizations and labor unions strongly opposed the reform, they could not block the partial pension privatization, but influenced the reform outcome by forcing the government to give concessions. This is because, the level of democracy in Argentina provided space for interest groups to seek their interests. Although pension coverage was not high, thus which was not an electoral constraint for the government, the government pursued negotiations with labor unions and pensioners to meet the public expectation. However, high union density in Argentina (during 1980s as 36% of the economically active population was union members) compared to Brazil (29% in Brazil) could not block structural pension reform. This is partly because the opponents of pension privatization were not unified and did not form a coalition against the structural pension reform (Kay, 1999).

But also strong Menem government blocked interest groups to act as veto players on pension reform through enacting several institutional constraints. For instance the lack of plebiscites explains how interest groups could not bring pension privatization into the public debate (Mesa-Lago, 1997: 511), and the use of emergency executive decrees for pension reform indicates how Menem dominated the executive branch during pension reform (Kay, 1999: 413). He had the enactment capacity as his government was holding the majority of seats in the parliament during the legislation of pension privatization (Madrid, 2002: 174). Also the successful maintenance of economic stability provided Menem government to have political legislative power over politicians and control over social ministries. For these reasons, the government was able to reduce several guarantees and concessions by claiming that otherwise would lead economic instability and enabling partial pension privatization (Haggard and Kaufman, 2008).

As well as domestic factors, the World Bank as an external actor was influential over the reform design as it provided loans to Argentina to cover the costs of the transition and recommendations for reform model (Madrid, 2002). Although the World Bank asserts that it was not an active contributor to the pension reform design in Argentina, there was unofficial consulting between the World Bank and Argentina after the first reform proposal. The World Bank report on Argentina (see the World Bank, 1993) argue that old pension system was financially unsustainable and needed a deep radical structural change as it was suffering from fraud, high levels of evasion and bankruptcy. The 1993 report was very positive about pension privatization and recommended several points to be included in the reform (Martino, 2007). The research in 1994 was proposing a general multi-pillar pension model for every country and advocating that pension privatization would contribute to the capital market development and domestic savings rate (the World Bank, 1994). This report was considering the pension funds as a source for the financial sector and impacted many policy makers as well as Argentinean technocrats who were challenged with low saving rates and economic recessions. After the approval of the mixed model, the World Bank devoted several major loans to Argentina indicating the support for the continuity of the government's pension policy (Martino, 2007).

However, pension privatization in Argentina did not meet with the reformers' expectations and especially the crisis of 2001 caused inevitable damages on private pension scheme as the system lost its reserves and led high levels of public dissatisfaction. It was difficult to finance transition costs during domestic and international economic recessions. Thus in 2007 the government initiated a new reform to expand public tier and state role in pension provision, and 10% of the contributors in mixed system turned back to public pension scheme (Brooks, 2009: 130-32). Officially in January 2009, the private pension scheme closed down and all people contributing to this scheme transferred to public pension system (Social Security, 2009).

3.2.2. Hungary

During the transition period, the whole economy was restructured and the production was reorganized according to the demands of global market. New arrangements in the economy led to reduction in production, consumption and increased mass unemployment due to the early retirements and the informal sector. That was why by 1996 the coverage of public pension system fell to 64% from 86% in 1990 (Simonovits, 2009: 6). In 1996, pension expenditure was around 9.7% of GDP (Müller, 2002: 159). In 1998, due to increasing unemployment, low retirement age and higher life expectancy; estimated dependency ratio of pensioners was about 30% of the contributors. High pension expenditure led to increase in the contribution around 34% of the gross wages (Rocha and Vittas, 2002: 367). Thus, changes in the labor market complemented with the negative demographic changes weakened the balance of public pension system and brought doubt if it could be maintained in the long run without reforms (Simonovits, 2000).

During the mid-1990s, there was struggle to ensure macroeconomic stability as well as expanding the social security expenditures to meet public expectation for electoral reasons. The Hungarian social safety net established in the transition period was larger than Poland’s and caused high levels of social spending and increasing debts as argued above. Due to the public expectation and interest group pressures on the continuity of wide socialist welfare entitlements, the governments expanded social security benefits despite there is decrease in revenue (Haggard and Kaufman, 2008). The strong resistance of unions and stake holders delayed major changes in the public pension scheme in order to enhance financial sustainability. However, ongoing economic difficulties of the system by the late 1990s made the reform inevitable. The incoming crisis and instability left space for technocrats to be active in adjustment policies. The sustentation of ministry of finance to the debts of public system brought the influence of neo-liberal technocrats into the reform process (Müller, 2002).

The government assigned liberal technocrat Lajos Bokros to ensure economic stability in 1995. Bokros package decreased the budget deficits and raised the revenue. However the attempt to cut the benefits of social security such as family allowances and maternity payments in order to decrease budget expenditures blocked by Constitutional Court decision not to violate the acquired rights of the citizens (Haggard and Kaufman, 2008). The success of stabilization policies increased the influence of technocrats and the World Bank advisors whom brought pension reform to the political agenda despite the resistance of labor unions and pensioners. When the economy was stabilized in late 1996, technocrats attracted attention to the problems inherited in the nature of the pension system. Whereas ministry of finance was advocating a multi-pillar model offered by the World Bank (1994), social security ministry was arguing that parametric reforms would be sufficient to maintain sustainability of the public pension system (Simonovits, 2009: 12). Thus during the mid-1990s, the pension reform debate in Hungary was dominated with two different proposals, with the advocates of pension privatization through mixed model and of parametric reform of existing PAYG system. Ministry of finance promoted mixed model close to Argentinean pension system rather than Chilean model as it is associated with authoritarian military Pinochet regime (Müller, 2000).

This model was strongly supported by the World Bank advisors and it gave technical assistance by transferring experts from Chile and Argentina to Hungary with the request of ministry of finance (Müller, 2000). The external debt of Hungary brought the influence of World Bank as an external actor. The degree of the World Bank influence on pension privatization was up to the willingness of the domestic actors. Ministries of economy in Hungary as well as in Poland which have neo-liberal orientation were in line with the World Bank's recommendations (1994) on pension reform (Müller, 2002: 166).

Although during the legislation of the pension law in the parliament the government had the 72% of the seats (Simonovits, 2009: 15), it sought compromise on pension design with the opponents. The ongoing debate between ministries reached a consensus on partial privatization of public pension system as the public system became financially unsustainable. The new mixed model was implemented in 1998 after opposing parties received several concessions regarding the contributions, delay of new benefit formula and tax regime (Müller, 2000). The pension privatization favored by economic ministries and technocrats to lift the burden of the social expenditures to some extent, but governments were always reluctant to eliminate large entitlements of welfare system. Despite budgetary constraints, socialist welfare legacy defended by the political parties (Haggard and Kaufman, 2008) and thus, partial privatization in Hungary implemented with larger reformed public pillar as in the case of Poland.

Although labor unions and pensioners were successful to gain concessions on pension reform, they could not block the legislation of structural pension reform. There was no coalition among labor unions and they failed to build a tripartite consensus as they were diversified over the expertise of pension privatization. Not only labor unions, but also transition governments were lack of experience to build a tripartite coalition to negotiate the issues interest to both labor and employer (Fultz and Ruck, 2001: 37). Multiple administration of pension funds under private pillar ruptured the resistance of Hungarian labor unions as well as the case of Polish labor unions as they became entrepreneurs in pension fund business rather than opponents (Müller, 2002: 167). This positional change of labor unions reflects the power they gained over pension funds in individual accounts by representing the interests of work force as well as their lack of vision as a tripartite part. The impact of potential opponents to pension privatization in EECs was respectively smaller than in a usual setting due to the transition conditions (Müller, 2002: 168). However even they were not strong opponents, governments implemented mixed pension model rather than full privatization as high levels of coverage and welfare legacy created electoral constraints (Haggard and Kaufman, 2008) as well as high transition costs for democratic governments in EECs and governments willingness to negotiate reform design with the opponents.

3.2.3. Poland

In the late 1980s and the early 1990s, hyperinflation threat in Poland paved the way for rapid trade liberalization and the decline in state subsidies. Although the transition period was characterized by crisis and conflicts over the liberal reforms between liberal and socialist political parties, there was broad support for the restructuring of economy and the opposition parties could not propose alternatives to block the transition (Haggard and Kaufman, 2008). Thus transition to liberal economy consolidated the influence of the neo-liberal technocrats and ministry of finance who regarded public pension system overbalancing the economy.

By 1997, only 66% of the work force was contributing to the pension scheme as full employment promise was over and pension expenditure around 13.7% of GDP was the highest level of expenditure among EECs (Müller, 2002: 159). Contributors fell almost 20% (Fultz and Ruck, 2001: 24) and the dependency ratio of beneficiaries to contributors rose close to 40% due to the low retirement ages and reduction in the employment. These changes triggered the increase in the contributions around 45% which was the highest rates (Hausner, 2002: 350). However, high levels of contributions could not cover the pension debts and generous benefits. Consequently, ministry of finance and technocrats pressed for structural reforms for public pension system as it was disrupting macroeconomic stability and inflation rates and would not stand against demographic changes (Hausner, 2002).

In 1994, the post-socialist government proposed mixed pension model for pension reform and reform proposal highly debated between ministries of finance and labor (Chlon et. al, 1999). The attempts to privatize public pension system were strongly opposed by labor unions and pensioners through protests and strikes supported with the Constitutional Court annulment decisions (Chlon et. al, 1999: 12; Hausner, 2002: 352). However, the reformers sustained the reform process through an appropriate legislation based on principles such as full security in multi pillars, sustaining acquired rights, freedom of choice over investment funds and transparency to make the reform appropriate to the constitution (Hausner, 2002: 352-53). Thus in 1997, a group of experts proposed a reform program based on partial privatization and it was approved with a large reformed public pension pillar in 1999 through parliamentary majority despite the opposition of labor unions. Also the public PAYG pillar changed into notional defined contribution system (Chlon et. al, 1999). Although pension privatization was highly objected in the parliament, the economic constraints of the pension system increased the urgency of radical reform and the opponents could not ignore the negative impact of pension system over macroeconomic stability in the late 1990s.

The reform of public pension system could not be enacted in the early transition period despite crisis and high inflation. Instead, the benefits expanded rather than retrenchment as even moderate cutbacks and reform attempts met with strong opposition from unions and pensioners (Haggard and Kaufman, 2008). However the dependency of public pension system on the subsidies of the ministry of finance caused the interference of neo-liberal technocrats into pension system. Thus, the reform package of pension scheme was negotiated between ministry of labor and finance. On compromise between ministries and through parliament majority, the partial privatization of pension system in the form of mixed model legislated in 1999 (Haggard and Kaufman, 2008; Müller, 2000).

Throughout the reform process, the World Bank provided technical and financial assistance through major loans by advocating Latin American style pension privatization for Poland (Müller, 2002; Müller, 2008). It arranged trips to Argentina and Chile for Polish experts and policy makers to make observations and benefit from the experiences of these initiative countries. However, Polish experts distanced themselves from these precedents and pension reforms enacted on compromise in the parliament (Müller, 2008) disregarding the imposition of the World Bank for the reform models in LACs.

Even the government change in Poland did not have significance on pension reform outcome as there was an assured consensus on reform necessity and the new governments continued with pension privatization process after 1997 elections (Fultz and Ruck, 2001: 36-37). The crisis situation of public pension system convinced the governments that the reform was urgent and there had to be several structural measures taken for the sustainability of the system. Moreover, the policy makers decreased the opposition by expanding public expenditures. The welfare legacy of the socialist system increased public expectations and led governments to institute social safety nets such as early retirement rights, disability income and unemployment benefits decrease public opposition to pension privatization. This broad safety net increased government spending in an era of declining revenues, macroeconomic instability and increasing informal economy. However, in the middle of 1990s, recovering economy removed the pressure on the government to cut in government expenditures, and policy makers benefited from robust growth to finance the benefits of broad social safety net. Thus, government involvement in social security ensured social stability and decreased the opposition to structural reforms (Haggard and Kaufman, 2008).

As well as economic situation of the system and welfare legacy, the opposition of interest groups and Constitutional Court decisions shaped the reform outcome. The blockage of Constitutional Court on the legislation of the reform by claiming that the reform would cause the decline in the acquired rights led government to prepare legislation for the reform appropriate to the constitution. The negotiations between opposing political parties, unions and pensioners ensured the guarantee of acquired rights of the citizens. Thus the government secured the benefits of the old system which caused increasing social expenditures for electoral reasons (Haggard and Kaufman, 2008). Despite the liberalization pressures, interest groups influenced the reform design through electoral and constitutional constraints. The democratic consolidation in Poland enabled interest groups to act as veto players and to influence the reform outcome of pension system. It also left space to Constitutional Court to influence reform outcome as it would be undemocratic to override its decisions. Thus the concession given to unions and pensioners to win their consent enabled the public pillar larger than the private tier (Müller, 2000). However as in the case of Hungary, the lack of tripartite ties prevented labor unions and pensioner organizations to block partial privatization. Moreover multiple administration of funds given as a concession disrupted the resistance of labor unions.

Consequently in Poland, pension privatization enacted in order to balance pension system expenditures for macroeconomic stability during economic recovery as transition costs could be covered by economic growth. The relatively high democracy level in Poland compared to LACs provided space for opponents to influence reform design and partial pension privatization instituted with larger public pillar and increased benefits with complementary private pillar through negotiations and concessions. Although reformer governments had the majority of seats in the parliament, they sought for compromise on reforms and negotiation. But they successfully initiated pension privatization despite opposition.

3.3. Countries with no Pension Privatization: Brazil and the Czech Republic

Pension privatization in Brazil and the Czech Republic is discussed but due to the variation on principal determinants, privatization attempts are blocked and parametric pension reforms are introduced. The discussion below indicates what kinds of factors are more determinants on the reform outcome in the form of no privatization.

3.3.1. Brazil

Brazil is did not privatize its public pension system but instituted major parametric reforms that reduced the financial liabilities and inequalities of the pension system in the long-run (Brooks, 2009: 144). Although there were several recommendations and attempts to privatize public pension system, strong opposition of interest groups and reluctance of policy makers undermined these efforts. The public pension system of Brazil is the largest one and also the most unequal scheme among LACs in terms of redistribution and benefits (Hunter and Sugiyama, 2009). By 2002, 78 million people were employed in Brazil and only 35 million of them were the active contributors to mandatory public pension schemes and the rest constituted the large informal sector. Around 45% of the economically active population was covered and the dependency ratio of the beneficiaries to active contributors was about 20.7% (Valdés-Prieto, 2007b: 45). There were huge inequalities between pension schemes of private and public sector workers in terms of benefits and contributions. Thus, the governments during the 1990s running large fiscal deficits targeted pension system for reform to ensure macroeconomic stability as it was creating the highest budgetary pressure (Brooks, 2009).

Brazil has a three-pillar pension scheme which ramifies into mandatory first two pillars serving to private and public sector workers separately and voluntary third pillar in the form of closed and open funds. The reform need of the system was based on rapid aging problem as well as deficits due to structural problems that increase high fiscal burden and regressive features such as pensions of public sector workers paid out general revenues (Kane, 1998: 304). Before the reforms, it was the source of major inequalities between occupations as state officials receive pension in

30 years of service without any contribution and their pension wage was four times higher compared to labors' pension (Kane, 1998). When Cardoso government proposed a reform for private sector workers' pillar in 1996 to make constitutional amendment, the huge resistance of interest groups overcame the reform initiative.

During the pension reform process, pensioners' organization and labor unions built coalitions among themselves and with the leftist parties to block pension privatization. They established Opposition Frente Parlamentar in 1995 in which Workers Party organizing opposition in legislature; pensioners and labor unions gathering public support; and social security auditors providing expertise. Unlike the organized opposition, the supporting parties were not assertive. Business groups did not play a major role in advocating the structural pension reform as in Argentina although they support pension privatization (Kay, 1999: 410-11). Consequently, Cardoso government failed to institute its reform package until 1998 economic crisis. Through the crisis, the increasing instability in the country forced policy makers to take measures in pension system as it was increasing the debts of the budget. Hence Cardoso government made amendments in the 1988 Constitution by eliminating several privileged pension schemes and tightening the required conditions for retirement for private sector workers (Brooks, 2009: 144-46).

When Asian Crisis of 1997 and Russian Crisis of 1998 were threatening Brazil by increasing the fiscal deficits of the country (Valdés-Prieto, 2007b), Cardoso government targeted to privatize private sector pillar as a second step in the pension reform. Thus, a group of technocrats assigned by the government introduced a reform proposal of mixed model for pension privatization in 1998. Although Chilean model was considered as a model, full privatization was not seen feasible for Brazil as its social insurance system was highly unequal and transition would be too costly to be covered considering the fiscal constraints of the economic system. However the central bank officials vetoed the proposal as it would lead fiscal costs that state could not compensate. The financial crisis in 1999 justified the concerns of technocrats in ministry of finance and the Central Bank (Haggard and Kaufman, 2008). The crisis caused the increase in the debt of the government almost equal to 45% of GDP with a nominal deficit around 8.65% of GDP. Consequently, the pension privatization proposal cancelled with reformer technocrats considering the unfavorable macroeconomic situation.

Through the recovery in the economy, the technocrats assigned for pension privatization proposed a parametric reform which would establish a notional account pension reform with a new benefit rule. The reform would not privatize the system and still depend on PAYG financing, but it would individualize most of the losses and eliminate aging problem (Brooks, 2009: 175-182: Haggard and Kaufman, 2008). To implement the reform, Cardoso needed to change only the ordinary law with imposition power. The social security ministry also supported the reform by claiming that the debts of private sector were a time-bomb. Although there were strong opposition and resistance of other political parties, interest groups and pensioners as in the case of previous reform, the economic instability environment strengthened the hand of reformers. Policy makers argued that private sector pension scheme was needed to be reformed as it was causing a deficit 1.1% of GDP by 1999 and would reach 2.4% of GDP by 2020. Thus blaming the pension system as a source of instability persuaded legislators in the parliament and the reform legislated by 1999 as mobilized labor unions and opposition parties could not falsify the justification of the reform (Brooks, 2009: 284-87).

During the 1990s, the World Bank supported reform initiatives through major loans targeted to reduce the debt burden of social insurance system as pension programs caused a major deficit equal to 4.8% of GDP. The Bank provided financial assistance by four large loans and technical assistance with an analytical study on Brazilian pension schemes. Brazilian policy makers rejected pension privatization suggested by the World Bank to all reformer countries by arguing that such a transition would be exceedingly costly to be covered and Chilean type of pension reform means the elimination of social security goals. Although the World Bank advocates that Brazil could deal with the financial costs of the transition in the long run, Brazilian governments did not consider pension privatization as an option (Valdés-Prieto, 2007b).

Although Cardoso government was successful in initiating two parametric reforms to decrease the financial burden of the system, public workers' pillar remained unreformed while it was the major source of fiscal burden. Thus the most important reform instituted in 2003 under Lula da Silva government from Workers Party. The reform instituted major changes in public sector pillar which are the increase in the retirement age and elimination of several privileges for the new comers through constitutional amendments. New state officials registered into the public pension scheme had to contribute to the system to receive benefits (Brooks, 2009: 144-46).

As in other LACs, Brazil also suffered from high inflation and financial deficits during the 1990s and such economic conditions led to increase in the influence of technocrats in finance ministries and the Central Bank. However, the fragmented political system in Brazil decreased the influence of neo-liberal technocrats in pension privatization (Haggard and Kaufman, 2008). In order to initiate structural pension reform, at first government needs to enact constitutional amendments in the pension law. But this fragmented structure complicated to gather majority of votes for constitutional changes and build coalitions with other parties (Brooks, 2009: 272). Cardoso government failed to obtain the support of the majority in the legislature and of the public. Moreover, the strong tax base of Brazil provided a justification to increase expenditures and mitigated the need of liberalization policies and the interference of the technocrats (Haggard and Kaufman, 2008). Under these conditions pension privatization was not required urgently.

Although neo-liberal technocrats were effective when economy had slowed down and shaken by high inflation in the late 1980s, due to constitutional constraints and strong opposition as well as high transition costs, liberalization in social policy could not be realized (Brooks, 2009; Haggard and Kaufman, 2008). As discussed above, full privatization of public pension scheme offered as a solution to the increasing deficits of public pension system, but high transition costs evaded technocrats themselves not to destroy the economic stability achieved yet. Thus, governments favored cautious parametric pension reforms not to risk macroeconomic stability despite the continuing huge benefits of public sector pensions. The oppositions from pensioners, labor unions and public bureaucracy complicated to initiate even parametric reform that would lift several privileges of public sector pensions which cause a huge burden over social security system (Haggard and Kaufman, 2008).

Unlike other LACs, Brazilian government did not abuse executive decrees or judiciary mechanisms to legitimize pension privatization due to its fragmented power and strong opposition of interest groups. In Argentina, Menem government dominated Supreme Court and judiciary not to act as veto players (Kay, 1999: 416). In Mexico, the dominant party PRI enjoyed its superiority over the legislature of pension privatization and bypassed the opposition of labor unions by building alliance with them. In Chile, the military government suspended the democratic opposition of labor unions, pensioners and civil society organizations to pension privatization and legislated pension reform with enforcement. Moreover, in Brazil, there was disagreement among ministries on pension reform model and ministry of finance was not influential over social security bureaucracy to impose pension privatization.

In this political context, Brazilian interest groups were also successful in interfering into the domestic policy making as veto players. They accomplished mitigating the reform outcomes or even blocking not only pension privatization, but also moderate parametric reforms. Unlike Mexican and Argentinean labor unions and pensioners' organizations, they successfully united and built coalitions among themselves and other political opposition parties. Besides political context, pension privatization was considered in all cases when there were crises in economies and public pension systems. However except Brazil, the other cases were successful in instituting pension privatization as policy makers in these countries took the initiative to finance high transition costs. In Brazil, government opted out even partial privatization claiming that the unfavorable economic situation could not finance exceedingly costly transition, but enacted a reform based on notional account scheme. Also, in the Brazilian case, the World Bank was not a persuasive external actor to influence the choices of policy makers compared to other cases that implemented pension privatization.

3.3.2. The Czech Republic

In the early 1990s, the social security system was not deprived of the dramatic economic instability differently than other EECs. In other words, the indicators of Czech public pension system were relatively better than its counterparts Poland and Hungary as well as macroeconomic situation. Although contributors to pension scheme fell around 30% in Poland and Hungary, it was only 10% in the Czech Republic by 1992 and the dependency ratio of beneficiaries to contributors was less than 10% (Fultz and Ruck, 2001: 24-26). Despite good indicators, in 1993 the voluntary private pension scheme established to provide additional pension income (Gern, 2002: 469). By 1995, the level of contributors was high around 83% of the labor force and pension expenditures was relatively modest equal to 8.2% of GDP compared to Hungary and Poland (Müller, 2002: 159). The rate of contribution was 26% and it was projected to increase in the future due to increasing dependency ratios. Thus in 1995, parametric pension reform was introduced to eliminate the deteriorating effects of increasing number of pensioners and expenditures (Gern, 2002: 469).

The liberal party of Klaus during the transition period favored radical structural pension reforms including pension privatization. However there were no deep recessions or huge fiscal problems in the Czech Republic as in other cases as argued above. The absence of serious economic constraints limited the urgency of pension privatization. Thus, neo-liberal technocrats and economic ministries have limited capacity to interfere into the policies of ministries of labor and social affairs. Also any effort for pension privatization encountered with strong opposition from labor unions and pensioners' organizations. Generous benefits continued consisted with the public expectations until the late 1990s which was an era characterized with scandals and bankruptcies. Downturns in economy and political instability resigned Klaus government and Social Democrats came to power. The new government in the Czech Republic in 2000 dropped pension privatization from the political agenda due to high transition costs and preferred parametric pension reforms. In 2001, through concessions with parties, government instituted parametric reform of pension system to reduce the expenditures of the system (Fultz and Ruck, 2001: 36-38; Haggard and Kaufman, 2008).

Consequently, two major political parties in the Czech Republic remained distant to any level of pension privatization. Even under the rule of liberal party, socialist coalition partners and electoral constraints limited its legislation capacity for pension privatization. Klaus government was hindered by ministry of labor and social affairs as public pension system was economically sustainable. The economically better shape of the Czech pension system compared to Poland and Hungary did not require a radical pension reform. Instead, the public pension system had surplus assisting the general budget which eliminated the influence of World Bank as an external factor over pension system as well as ministry of finance (Müller, 2000). Moreover, the high levels of coverage compared to other cases posed important transition costs which also evaded policy makers from implementation of pension privatization. Voluntary individual accounts in pension system established in 1993 and the public pension system remained in the lines of European pension system tradition. In case of the Czech Republic where pension privatization rejected as a reform option, the financially sustainable public pension system and high transition costs that would disrupt fragile economy evaded policy makers to implement more radical structural pension reforms (Müller, 2002: 167).

3.4. Comparison and Conclusion

Among the cases of this study, Chile and Mexico which enacted full privatization are the only authoritarian and semi-democratic regimes during the legislation of pension privatization as also Table 3.1 below illustrates. The military rule in Chile banning political parties and suppressing interest groups instituted pension privatization without facing any serious opposition. The semi-democratic regime in Mexico holding the majority of the seats in the parliament since early 20th century used its superiority over legislation to implement pension privatization despite the opposition of interest groups. The lack of influence of labor unions and pensioners' organizations provided the legislation of full privatization as the influence of interest groups could shape reform design in the form of partial privatization as in the case of Argentina. Contrarily, neo-liberal technocrats were active actors in pension reform outcome as unsustainable public pension systems and mostly macroeconomic crises in both Chile and Mexico increased their influence which facilitated to introduce full privatization of pension system as indicated in Table 3.1 below. Hence, reform outcome in the form of full pension privatization in Chile and Mexico is driven mostly by their authoritarian regimes and macroeconomic crises increasing the influence of neo-liberal technocrats in key positions.

However in Argentina, which experienced worse economic crises than Chile and Mexico, the government implemented partial pension privatization, although the influence of neo-liberal technocrats increased on pension reform. Because, negotiations and compromises between stakeholders and the governments facilitated to establish moderate private pension scheme in Argentina compared to authoritarian regimes. The democracy level in Argentina provided space for interest groups to shape the reform outcome and level of privatization was decreased to partial at the end of negotiations. However, the strong government holding the majority of seats in the parliament implemented structural pension reform as interest groups cannot act as veto players. They were not unified and could not form coalitions against the pension privatization. Also, the choice of mixed model could be explained by the bankruptcy of public pension system which abstained policy makers from implementing substitutive model as it would increase transition costs and threaten fragile macroeconomic stability. These significant differences are also indicated in Table 3.1. Thus, partial privatization in Argentina is the result of the crises of public pension system which increases the costs for full privatization and the level of democracy that leaves space for interest groups to negotiate with the government.

There were crises in the economies and pension systems in both Hungary and Poland in the transition period which increased the influence of neo-liberal technocrats on domestic policy making as well as pension reform. The increasing influence of neo-liberal technocrats brought pension privatization to the agenda. However, the governments preferred partial rather than full privatization because of their commitment to socialist welfare legacy. Despite there were budgetary constraints, governments did not hesitate to expand welfare benefits to meet public expectation. This would be because of the influence of the statist technocrats and limited commitment in bureaucracy to liberal market. Also the level of democracy left space for oppositional interest groups, but they did not initially shape the reform outcome. Labor unions and pensioners' organizations were successful to receive concessions, but their opposition was perceived as a reflection of public expectation which created electoral constraints for the governments. Thus they negotiated and reached a consensus with the opposing parties to legislate structural pension reform

Table 3.1: Comparison of Cases According to Theoretical Framework

Cases	Political Context			Macroeconomic Factors			Interest Groups	IFIs
Chile	Authoritarian Regime	Government had legislation capacity	Regime type prevented the influence of public expectations	Moderate crises in economy and pension system	Influence of Neo-liberal technocrats	Doable Transition Costs	Lack of influence of interest groups	World Bank was influential actor through technical and financial assistance but not determinant
Mexico	Semi-democratic Regime	Government had legislation capacity	Regime type prevented the influence of public expectations	Moderate crises in economy and pension system	Influence of Neo-liberal technocrats	Doable Transition Costs	Lack of influence of interest groups	World Bank was influential actor through technical and financial assistance but not determinant
Argentina	Democratic	Government had legislation capacity	Rather than public expectations, influence of interest groups was influential	Worse crises in economy and pension system	Influence of Neo-liberal technocrats	Doable Transition Costs	Influential as veto players	World Bank was influential actor through technical and financial assistance but not determinant
Hungary	Democratic	Government had legislation capacity	Welfare Legacy and Electoral Constraints were effective	Moderate crises in economy and pension system	Influence of Neo-liberal technocrats	Doable Transition Costs	Lack of influence of interest groups	World Bank was influential actor through technical and financial assistance but not determinant
Poland	Democratic	Government had legislation capacity	Welfare Legacy and Electoral Constraints were effective	Moderate crises in economy and pension system	Influence of Neo-liberal technocrats	Doable Transition Costs	Lack of influence of interest groups	World Bank was influential actor through technical and financial assistance but not determinant
Brazil	Democratic	Limited Legislation Capacity	Rather than public expectations, influence of interest groups was influential	Crises in economy and pension system	Limited Influence of Neo-liberal technocrats	High Transition Costs	Influential as veto players	World bank advised but Government did not choose
The Czech Republic	Democratic	Limited Legislation Capacity	Welfare Legacy and Electoral Constraints were effective	Relatively sustainable economy and pension system	Limited Influence of Neo-liberal technocrats	High Transition Costs	Lack of influence of interest groups	World Bank was influential actor through technical and financial assistance but not determinant

and in order to ensure public satisfaction public tier remained larger in terms of benefits. Hence, the reform design in these cases is influenced by the influence of neo-liberal technocrats increased by the crises in economies and pension systems. The level of democracy in both countries left space for the interest groups to influence the reform design through negotiations and concessions which enabled public pillars larger. But they could not act as veto players as partial privatization is enacted.

Brazil was sharing the same instabilities in the economy and pension system like other cases but had relatively better economic indicators as the amount of pension debts subsidized by the government is the lowest among the cases (see Table 1.1). This situation contained the urgency of the pension reform. Also, high transition costs dissuaded policy makers to even implement partial privatization. Brazilian pension system was the largest and highly unequal compared to other schemes in the reformer countries, thus volatile economic system would not cover the transition costs of even mixed model according to technocrats and ministries of finance. This is also because the influence of neo-liberal technocrats remained limited, although Brazil confronted with financial deficits and high inflation. Governments preferred cautious parametric changes not to disrupt macroeconomic stability. Moreover, Brazilian labor unions and pensioners' organizations unified and formed coalitions with other political parties to block pension privatization differently than other cases. In other cases, the governments prevented interest groups to act as veto players. However in Brazil, interest groups were successful in engaging domestic policy making as veto players. Also Brazilian government failed to gather majority in the parliament to implement such a debated reform against to coalition powers. Thus, the reform outcome in Brazil is shaped by the limited influence of neo-liberal technocrats and situation of the pension system making the transition costly to be covered and by the interest groups acted as veto players and blocked pension privatization.

The Czech Republic which has the best sustainable pension system among EECs and LACs complemented with the functioning economy did not require an urgent pension reform. Thus in pension reform debate, ministry of labor overcame the influence of ministry of finance as good macroeconomic indicators limited the influence of neo-liberal technocrats. It is also argued among policy makers that high coverage of pension system would cause high transition costs difficult to cover. Moreover, government had limited legislation capacity in the parliament to implement such a debated reform similar to Brazilian case. Thus, the reform outcome in the Czech Republic is shaped by the good macroeconomic indicators and sustainable pension system limiting the influence of neo-liberal technocrats and causing high transition costs due to the high level of coverage.

The World Bank appears as an influential external actor on pension privatization in a multi-pillar model through technical assistance and major structural loans in cases that instituted either full or partial privatization. It rendered structural pension reforms possible by providing expertise and financial loans. However in Brazil the disinclination of government to implement pension privatization eliminated the influence of the World Bank. Similarly in the Czech Republic low levels of budget deficits and financially sustainable pension system kept the influence of World Bank away from the domestic policy issues. It is fair to argue that World Bank advocates a certain form of pension reform (see World Bank, 1994; Schwarz and Kunt, 1999; Valdés-Prieto, 2007; Martino, 2007) in reformer countries, but it did not enforce countries. Brazil and the Czech Republic disinclined to enact structural pension reforms, thus they successfully refrained from World Bank's imposition even Brazil received major loans for parametric pension reform.

All case-countries faced with severe economic crises and instability inclined to implement more radical structural pension reforms with the increasing influence of neo-liberal technocrats except Brazil and the Czech Republic. Especially the relatively better economic situation in the Czech Republic decreased the urgency of the pension reform as better economic conditions did not create leverage for technocrats to implement more radical liberal reforms. In case of Brazil, the attempts of neo-liberal technocrats to privatize pension system are challenged with diverse political system and institutional constraints. In other cases that instituted pension privatization, the crises caused the interference of neo-liberal technocrats into the reform process and led to pension privatization. Also in Brazil, the oppositional interest groups acted as veto players and blocked the pension privatization attempts. In the Czech Republic, the welfare legacy and electoral constraints evaded policy makers to implement such a radical change instead of interest groups opposition.

The implementation of radical structural reforms on pension system could be challenged by also welfare legacy from the socialist era as in EECs. The socialist pension system inherited public expectation on government to play a larger role in the provision of social security benefits. This legacy caused strong opposition of stake holders and interest groups to pension privatization and created electoral constraints for the governments. Thus governments embraced privatization of pension system in mixed model with larger and reformed public tier and through several concessions. However despite reforms in Latin America, fragmented structure of the system and unequal access to social security retained. The narrowness of the coverage and unequal access decreases the capacity of stakeholders to defend their interests in LACs. This situation also creates little electoral constraint for the governments not to enable pension privatization. Although EECs adopted pension privatization, the governments' commitment to social security is closer to European perspective rather than liberalism. Contrary to the variation in models of pension system in LACs, EECs are more homogenous in terms of their pension schemes as they shared similar economic constraints and welfare legacy.

Although economic crises in both regions increased the influence of neo-liberal technocrats and paved the way for more radical structural reforms on social security, the scope of benefits caused differentiation in the reform design. The huge benefits of socialist welfare system in EECs as the welfare legacy generated public expectation to go on with the existing commitments even there is pension privatization. Wide coverage as electoral constraint and allies of unions in key administrator positions played an important role in increasing the size of and improving public pillar. However coverage and social security bureaucracy in LACs varied within countries. Differently than EECs, pension coverage in LACs is not universal and limited to several occupational groups, excluding the large segments of population. Although low pension coverage did not generate electoral constraint on policy makers, unions and pensioners are able to exert concessions during policy making process and become influential.

CHAPTER 4

COMPARATIVE ANALYSIS OF PENSION REFORMS IN TURKEY[7]

Since early 1990s, Turkish public pension system deprived of financial stability because of increasing deficits and institutional shortcomings. Populist policies implemented for electoral gains, favoritism and inappropriate investments of pension reserves spoiled the financial balance of the system which caused large liabilities on the national budget. Therefore in 1999 and 2006, several parametric measures are taken for the sustainability of the system. The reforms are instituted after major economic crises with the increasing influence of neo-liberal technocrats and IFIs to ensure macroeconomic stability. As well as in other countries, structural pension reform that would establish a mixed pension system in 1999 was elaborated. However, the Government disfavored pension privatization as in the cases of Brazil and the Czech Republic. The transition from PAYG system to mixed pension scheme was too costly for Turkey that its economic conditions and institutions could manage. Moreover the negotiations between interest groups and the Government were too contentious even on parametric pension reforms which make difficult to enact any

[7] In this chapter, I interviewed with Prof. Dr. Serdar Sayan who attracted attention to the actuarial balance of Turkish pension system with his studies. Also I interviewed with Tuncay Teksöz who was one of the influential technocrats during the 1999 pension reform and the architect of the 2006 pension reform and the head of the Social Security Institution btw 2004-2006. I also interviewed with an anonymous expert from the World Bank who involved actively in the 1999 and 2006 reform process. I will refer this anonymous expert as (Interviews, 2010) in the text.

structural pension reform as labor unions could strongly oppose and manipulate the process.

Similar to reform experiences of Brazil and the Czech Republic, Turkey maintained its public pension system and established private pension scheme on voluntary participation in 2003. Thus, in this chapter I discuss why Turkey did not embrace structural pension reforms on the basis of four factors; the crises of economic system and public pension scheme, the influence of IFIs, the influence of interest groups and the context of political regime regarding the level of democracy, welfare legacy, institutional constraints and strength of the Government in the parliament. The chapter proceeds by discussing the brief history and the development of public pension system indicating the problems required reforms. Following two parts investigate the 1999 and 2006 reforms respectively on the bases of the theoretical framework. In 1999 reform the Government considered establishing a mixed model but preferred implementing parametric reform. The analysis of this reform period according to the analytical framework reveals important insights explaining why pension privatization is deterred. Although the Government did not consider establishing mandatory private pension scheme in 2006 reform, it is important to discuss in order to understand how related actors and factors shaped the outcome. In the last section, I discuss briefly the reforms and theoretical comparison of Turkish reform experience with the experiences of Latin America and Eastern Europe countries to discover similar patterns and differences among cases.

4.1. The Development of Turkish Public Pension System

In 1936 the first Labor Law enacted in Turkey, but until late 1940s social security system was not institutionalized. Following the development of social security systems around the world after WW2, Turkey implemented several laws for nationalization of pension system and to increase the scope of benefits through three major institutions on the basis of occupational status. First institution of public pension system, Retirement Chest (Emekli Sandığı) is established in 1949 for civil servants working in the public sector (SGK, 2010). In 1961 constitution and in 1982 constitution as well, social security is defined as a social right for every citizen and a duty of the state. According to the 60th article of the Constitution, "Everyone is entitled to social security. State takes required measures and builds necessary institutions to ensure social security." Therefore, during 1960s and 1970s, the scope of social security is increased by covering other sectors and many risks such as sickness, old-age, disabled, sickness, maternity, compensation and occupational sickness (Güvercin, 2004). Enlarging social security benefits led the formation of other major institutions. In 1967 Social Insurance Institution (SSK) is established for workers in private sector. The third institution, Bağ-Kur for self-employed, craftsman and tradesman is established in 1971 (SGK, 2010; Social Security Programs, 2008). These three institutions also cover health services of their members together with pension benefits (see Table 4.1 below). However, for the purposes of this research, only public pension system is studied.

Table 4.1: Social Security System in Turkey (until 2006 reform)

Social Security System			
Contribution for Pension and Health System	Pension System	Health System	Social Assistance System
Mandatory Public Schemes	Emekli Sandığı, SSK, Bağ-Kur		Old Age Green Card
Mandatory/ Voluntary	Occupational Programs/Chests		Social services and child protection agency
Voluntary	Individual Pension System[1]	Private Insurances	Social aid and solidarity fund

Source: Composed by Author

[1] Instituted in 2003 by the 1999 pension reform.

As Table 4.1 above indicates, the three institutions constitute mandatory first pillar of public pension system which works with defined-benefits on PAYG funding and provides pensions to whom contributed to the system. The second pillar is the voluntary or mandatory occupational pension programs or chests[8] which are not significant as they do not develop enough. The third pillar is the individual pension system based on voluntary contribution. It is established in 2003 as a part of the 1999 reform to complement the first pillar for people who want higher returns in their pensions and managed by private insurance companies (Ak and Cicioglu, 2006: 8). By July 2008, 1.7 million individual joined private pension scheme in five years (BES, 2010).

As discussed in the previous chapters, the pension systems of developing countries suffer from financial problems led by actuarial imbalances and rapid ageing as a future concern. Similarly, the problem of Turkish pension scheme is the ignorance of actuarial balances and also institutional insufficiencies leading to the

[8]These programs/chests provide pensions to their members but they are not significant due to their small size in terms of covered population. These are the Armed Forces Mutual Assistance Fund (OYAK), Special Institution for Personnel of Banks, Private Insurance Companies and Stock Exchanges, Eregli Miners' Pension Fund, and Primary School Teachers' Sickness and Provident Fund (Gümüş, 2006: 170).

unsustainability of the system (Izgi, 2008). High dependency ratio of passive participants to economically active population due to early retirements, large informal sector and evasion together with institutional inefficiencies and misusage of reserves caused the disruption of actuarial balances over time (Korkmaz, 2007)[9]. Among these factors populist policies leading early retirements was the crucial reason disrupting financial stability of the public pension system (Sayan, 2010).

In 1950, the minimum retirement age is set as 60 but due to populist policies and institutional insufficiencies, this requirement is generally abused. Until 1999 reform, minimum retirement age is either abolished or decreased which enabled early retirements (Korkmaz, 2007). As Table 4.2 below demonstrates conditions for retirement reduced to contribution of 5000 days by abolishing minimum retirement age during 1969-86 and 1992-99.

Table 4.2: Changes in the Retirement Ages and Contribution Days

Years	For Woman	For Men
1950	60	60
1965	55	60
1969	25 years of work	25 years of work
1976	20 years of work	20 years of work
1986	55	60
1992	20 years of work	25 years of work
1999	58	60
2006	65	65

Source: Korkmaz, 2007: 57.

Especially, between 1992-1999, minimum age requirement has abolished again by Süleyman Demirel leading early retirements at 38 years-old for women and at 43 years-old for men if they started to work at 18 with a contribution requirement of 5000 days in 20-25 years of work (Sayan, 2010). Thus many people retired at early ages and get pensions for long years. However, in nowhere else in the world

[9] For detailed analysis of the problems of Turkish Social Security System, see Korkmaz, 2007.

except Turkey people could retire at 40s as most of the states increased minimum retirement age to 60s during 1990s (Interviews, 2010).

Moreover Table 4.2 above indicates the frequency of the political interventions in pension system. Until 1999 in 50 years of period, governments decreased or abolished minimum retirement conditions several times for electoral gains. As negative effects of these populist interventions appeared in next 30-40 years, governments could pursue these populist policies until late 1990s. Early retirements increase the dependency ratio of dependents to active contributors and also increase the costs of the system compared to incomes. The actuarial balance of the system spoils when the number of active contributors does not increase more than the number of the dependents as in the case of Turkey. Besides early retirements, since the middle of 1990s and onwards misusage of reserves and the evasion problem with growing informal sector also increased the dependency ratio. Thus in early 1990s governments started to subsidize the deficits of the system.

High amount of subsidies to the system started the debates on the sustainability of public pension scheme (Izgi, 2008: 95-6). State does not pay any contribution to the pension system except its contribution to Emekli Sandığı as employer. But since 1992 state subsidizes the deficits of the system which are increasing continuously deteriorating the budget balance (Peker, 1997: 22). Especially major crises such as 1998 economic crisis, 1999 earthquake and 2001-2 economic crisis deepened the pressures on public budget and subsidies to pension system regarded as problematic (Teksöz, 2010). Thus the debates focused on reforming the public pension system to improve its financial sustainability. Basing on the interviews with Tuncay Teksöz and a World Bank expert, I can claim that in

1999 both parametric and structural pension reforms are discussed for cure but parametric changes found more convenient for the conditions of the general budget and pension system.

In 1999, the reform implemented several parametric changes which improved financial competency of the system. Among these changes, conditioning retirement with a minimum retirement age 58 for women and 60 for men was one of the major measures for improvement. Also minimum contribution of 5000 days increased to 7200 days for workers in all sectors. However these changes were implemented for new participants and retirement age would increase gradually in 20 years. Thus people who joined the system earlier continued to retire at 40s. Besides parametric measures, unemployment insurance and individual pension system based on voluntary contribution are also introduced. The 1999 reform was successful as the deficits of the system decreased in a couple of years, but after 2001-2 economic crisis the deficits rose again and the new Government implemented a more comprehensive measures for the sustainability of the system in 2006.

The 2006 reform prepared by a group of experts in the Undersecretariat of treasury in 3 years made primarily institutional changes to ensure the sustainability of the public pension system (Teksöz, 2010). The three institutions merged under Social Security Institution to ensure equity of norms and standards among participants working in different sectors as Table 4.3 below demonstrates. Health and pension services are separated and health services aimed to be universalized with a minimum contribution. In pension system, retirement age is increased to 65 for both woman and man and pension calculation measures also changed to decrease inequality between pensioners of different sectors.

Table 4.3: Current Situation of Social Security System (after 2006 reform)

Social Security System			
Participation	Social Security Institution		
Mandatory	Pension System	Health System	Social Assistance System
Mandatory/ Voluntary	Occupational Programs/Chests		Child Allowance, Old Age Allowance, Disabled Allowance, Job Obtainment Allowance and Health Allowance
Voluntary	Individual Pension System	Private Insurances	

Source: Composed by Author

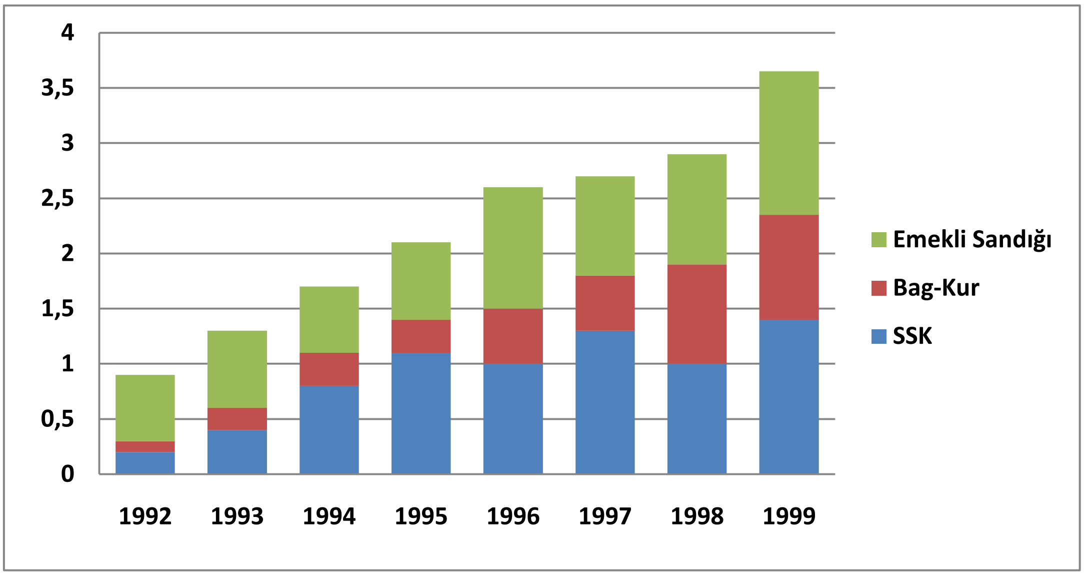
Although 1999 and 2006 reforms were necessary and urgent, labor unions strongly opposed to these changes as they did not want to lose generous benefits. They manipulated the reform processes by causing disinformation in public, but the reforms are successfully implemented except the annulment decisions of the Constitutional Court for two reforms. Labor unions did not only oppose to the parametric changes but are also against the establishment of Individual Pension System although it is not mandatory to contribute. In the media, reforms are debated widely and perceived as unpopular in public. In the following parts, I discuss why Turkish governments favored parametric reforms in 1999 and 2006 according to theoretical framework and how pension privatization is blocked in 1999 reform despite there were demands especially from several business groups to establish a multi-pillar pension system.

4.2. The 1999 Pension Reform

In developing countries the need for pension reform occurs because of large pension deficits, high dependency ratios of beneficiaries to actives and low ratios of active contributors to passives and states are required to subsidize these deficits from public budget. In Chile state was subsidizing the deficits of the system equal to 17% of

GDP during 1970s. The pension deficits of Poland were around 14% of GDP in mid 1990s. Among cases only Brazil had modest deficits equal to 4.8% of GDP by 1998. Turkey is similar to Brazil in terms of the amounts of deficits as seen in Figure 4.1 below. The subsidized deficits in 1992 was around 0.9% of GDP and by increasing continuously in 1999 it reached 3.7% of GDP which is quite below the deficits of the other pension systems.

Figure 4.1: The Deficits of Pension System as % of GDP from 1992 to 1999



Source: Olgaç, 2003.

Besides pension deficits, the system is financially unsustainable due to dependency ratios. Active insured people constituted only 17% of the population whereas dependents were 54% of the population by 1999 as Table 4.4 below demonstrates. This ratio is the lowest coverage rate of the economically active population among cases according to the Table 3.1 in Chapter 3. Hence, when dependents are more than the active contributors, the contributions would not be enough to pay the benefits of the dependents and state is required to subsidize the system. In Table 4.5 below it is seen that the dependency ratio of beneficiaries to active contributors 3.65 (365%) by 1999 which is very high compared to other cases as it is around 125% in México, 30% in Hungary and 40% in Poland, 20.7% in Brazil and less than 10% in the Czech Republic. Although dependency ratio in pension system is quite high in Turkey, the subsidized deficits were relatively low compared to other cases. This is maybe because of higher contributions relative to low pensions as high contributions could cover the low pensions.

Table 4.4: The Population Covered by Pension System (1996-9)

	1996	**Ratio (2)**	**1997**	**Ratio**
Active Insured	10.680.942	**17%**	11.250.860	**17%**
Pensioners (retired, invalid, widow, widower, orphan)	4.593.689	**7%**	4.931.673	**8%**
Dependants (1)	32.327.690	**51%**	34.739.865	**54%**
Total Insured	47.602.321	**75%**	50.922.398	**79%**
Total Population	63.443.000		64.584.000	
	1998	**Ratio**	**1999**	**Ratio**
Active Insured	11.520.012	**18%**	11.387.388	**17%**
Pensioners (retired, invalid, widow, widower, orphan)	5.273.864	**8%**	5.637.385	**8%**
Dependants (1)	37.026.169	**56%**	35.945.516	**54%**
Total Insured	53.820.045	**82%**	52.970.289	**79%**
Total Population	65.723.000		66.856.000	

Source: SPO Statistics.

(2) Ratio of the Row to Total Population
(1) Estimated.

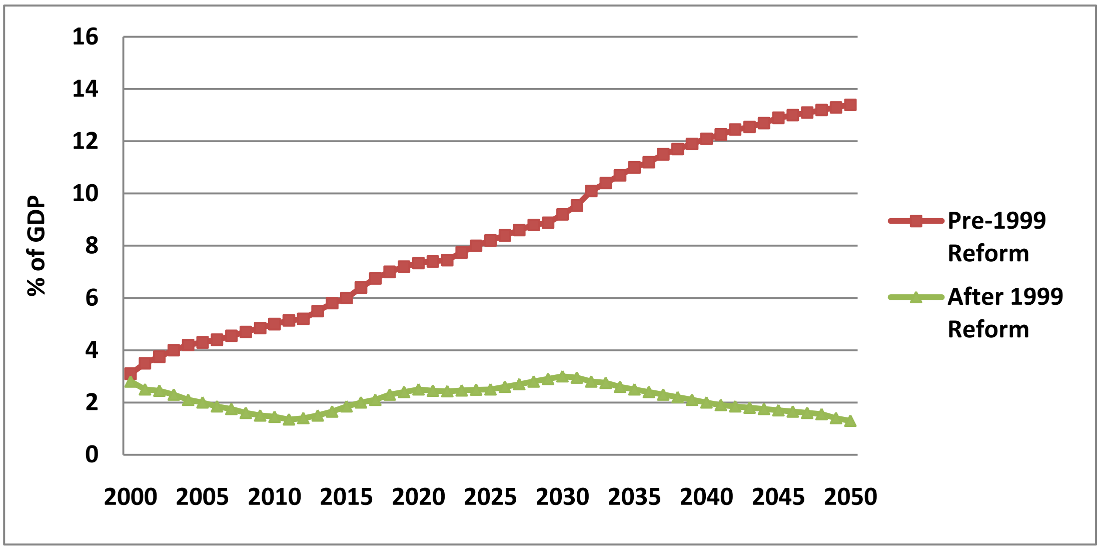
Table 4.5: Dependency and Active/Passive Ratios

	1996	1997	1998	1999
Dependency Ratio (Pensioners+ Dependents/ Active Insured)	3,46	3,53	3,67	3,65
Active/Passive Ratio (Active Insured/ Pensioners)	2,33	2,28	2,18	2,02

Source: Composed by Author according to the Data in Table 4.4.

As Figure 4.1 above indicates the deficits of the system were increasing rapidly and subsidies from general budget were required in increasing amounts. The rising deficits of the public pension system deteriorates budget balance on behalf of expenses as well as pressurizing domestic debt stock and increases interest rates with the pressure of domestic borrowing. These negative indicators cause uncertainty in the economy leading inflation as well as affecting investments and grow rates negatively. Thus economy contracts and unemployment and inequality of income distribution increase (Ak and Cicioglu, 2006: 5). Similarly in Turkey, the deficits of the system were dominating the general budget and needed to be contained. It is fair to argue that if the system remained unreformed, the subsidized deficits would increase continuously and deteriorate public budget balance considering low coverage rate and high dependency ratio. According to ILO 1996 report, public pension system will have deficits equal to %14 of GDP in 2050 if the system remained unreformed as Figure 4.2 below demonstrates. Thus the financial deficits of the system that began in early 1990s condensed the debates on the reform need of public pension system (Arap, 2006; Teksöz, 2010).

Figure 4.2: Comparison of Deficits for Two Periods as % of GDP: Pre-1999 Continuity and Post-1999 Period



Source: ILO 1996 Report on Turkish Social Security Reform cited in Olgaç, 2003.

Deficits and high dependency ratios are the results of populist policies implemented for electoral reasons. According to the interview with Sayan (2010), Turkish pension system required reform because of the abolishment of minimum retirement age during 1990s. As discussed in the previous part, minimum retirement age abolished between 1969-86 and 1992-99. The first period did not disrupt the system financially as much as the second because in the second period the system has already began to show deficits (Teksöz, 2010). In 1992, Demirel Government abolished minimum retirement age for populism and people could retire with a contribution requirement of 5000 days. If the only condition for retirement is reduced to contribution of 5000 days, people who start working in early 20s can retire around early 40s and this policy led early retirements during mid 1990s as discussed in details in the previous part. The Government justified this populist policy as it was a way to decrease unemployment. Demirel claimed that early retirements open the existing positions to the new comers. However the consequences of the policy were far from expectations. People retired earlier employed again and even corporations encourage people to retire earlier not pay employer's contribution more than 5000 days. In this way, people receive pensions and continue their work without making contributions to the system. (Sayan, 2010).

The misusage of the reserves should be noted as a second factor affecting the financial balance of the system. The institutions of pension system were not financially autonomous and they could not manage the reserves for the interests of the participants. The reserves transferred to several sections of the society in the form of subsidies, loans and assistance by governments because of favoritism and populism instead of investing in the market for more returns. Moreover the type of the market did not provide various investment tools. Before the governments took control of their whole budget in 1990s, the reserves were invested either in immovable or bank deposits which bring returns in the long run (Sayan, 2010).

The abolishment of minimum retirement age between 1969-86 and 1992-99 led early retirements and raised significantly the dependency ratio as well as the system’s deficits in early 1990s. Therefore, financial sustainability of PAYG system disrupted and required an urgent reform in mid 1990s. Before enacting a random reform package, Undersecretariat of Treasury, which was concerned about these public deficits, had made a contract with ILO to identify the problems in public pension system in 1995 and the study is financed by a the World Bank loan. The ILO report *Social Security and Health Insurance Project* completed in 1996 discusses alternative reform options such as full privatization, partial privatization, parametric pension reform and the non-reformed pension system with possible consequences. The report advocates that pension system is financially unsustainable and the amount of pensions is not enough to maintain living. The fundamental cause of financial problems is increasing dependency ratio of retired people to active contributors (see Table 4.5 above). Besides high dependency ratio, low pensions despite high contributions, high level of evasion and early retirements are other factors detected in the system deteriorating financial sustainability of the system. Hence necessary parametric changes should be enacted in order to strengthen pension system (Türk-iş, 1996).

Besides ILO, the World Bank was another actor advocating reform necessity through structural pension reform. According to the interview with a World Bank expert (2010), in the mid-1990s, the World Bank explored the feasibility of a mandatory defined contribution system, particularly whether the financial and supervisory structure was adequate for introducing such a system. Besides ILO projection, it was one option that the Government considered prior to the 1999 reform. She claims that before 1999, the maximum wage for SSK contributions was not linked to any parameters and depended on a vote in the Parliament for any adjustment. Since there was no automatic linkage, the maximum wage for contributions often lagged nominal wage growth as this was an era of high inflation for Turkey. In this environment, the World Bank advocated the option of keeping the maximum wage low, but linking it to average wage growth and then introducing a mandatory DC scheme to complement the rest of a worker's income. This kind of system consists of mandatory public and private tiers and a voluntary private pillar in which state still has a role as a provider of benefits, regulator and guarantor and which contributes to the development of market as well as increasing pensions (the World Bank, 1994).

Although there was a consensus on reform necessity during mid-1990s and several projections were offered by ILO and the World Bank, until 1999 none of the governments dared to increase eligibility requirements of retirement because of electoral constraints and welfare legacy based on the interviews with Sayan (2010) and Teksöz (2010). The necessary parametric measures such as increasing contribution ceiling, minimum retirement age and minimum contribution days are unpopular among people as they would lose generous benefits. Thus governments mostly avoid such reforms not to lose electoral support. As well as electoral constraints, generous benefits increased people's expectations and created a welfare legacy which is difficult to minimize because of resistance (Sayan, 2010; Teksöz, 2010). Thus it was difficult to alter retirement conditions for governments as contributors did not favor losing early retirement opportunity and would resist any major changes in pension system.

Moreover, these problems were not only stated by ILO or the World Bank. The social security system in Turkey is planned through 5-year development plans since 1960s and established major institutions according to these plans. All development plans until today emphasize the problems of pension system argued above posing financial liabilities the budget. For instance, the 7th development plan of 1996-2000 mentions the problems of pension system as the low ratio of active workers to passives due to the low retirement ages and low coverage of economically active population. The report also argues that the removal of age condition for retirement in 1992 risked the sustainability of the system (Apan, 2007). These evaluations in the plans demonstrate that since 1960s the situation of pension system is closely monitored by the governments and they were aware of the problems as they became domestic state affairs in the long-run. Although reform necessity turned a state project in these plans, until 1999 governments choose not to implement any changes.

However 1998 economic crisis which caused high inflation and 1999 earthquake posed huge financial liabilities on the Government. Policy makers could not ignore the deficits of the pension system and could not delay reform for the sake of budgetary balance (Teksöz, 2010). In 1999, the Government formed a reform group composed of experts from Undersecretariat of Treasury, Social Security Institution, State Planning Organization and Ministry of Finance. The Government devoted responsibility and support to this expert group. Consisted with the suggestion in ILO 1996 report, a two pillar pension system composed of mandatory defined benefit tier and voluntary defined contribution tier is found more convenient considering the conditions of the economy, general budget and financial situation of the system by these experts (Peker, 1997: 34; Sayan, 2010). Increase in the retirement age and minimum contribution of days and unemployment insurance are implemented. The significant change was conditioning the retirement both with age and years of work to prevent early retirements (Izgi, 2008). The second pillar of the reform was the establishment of individual pension system based on voluntary contribution to complement the public pillar (Teksöz, 2003). It is implemented in 2003 to provide additional income and to contribute to the development of capital markets and economy (Arap, 2006: 34).

The Government did not favor the World Bank's model as it was running a deficit in the pension system as discussed previously. Instead, by raising the contribution limits on wages, in the short run, the Government aimed to take more revenue and had to pay the same pension benefits improving the fiscal situation (Interviews, 2010). Hence improving the short run fiscal situation was a paramount concern for the Government. Consisted with this objective, Teksöz claims that the reform group of experts evaluated the World Bank's projection, but found the transition to a multi-pillar pension system would be too costly for Turkey and the budget already running deficits could not cover these financial costs. Instead, the experts advocated the establishment of voluntary Individual Pension System which does not pose financial liability on the budget. However World Bank expert claims that if countries really intend to implement such a reform, they can create the fiscal space for transition costs (Interviews, 2010). But it is fair to argue that the Government in Turkey was never interested in pursuing this model considering high transition costs with such a high dependency ratio. The experts in the reform group were not liberals and so they were not assertive about the feasibility of a mandatory private pension scheme. Thus 1999 reform designed for controlling and reducing the deficits of the system through parametric measures.

During this reform process, such parametric changes met with strong opposition from interest groups such as labor unions and chambers whereas several interest groups like Turkish Industrialists' and Businessman Association[10] (TUSIAD) supporting Chilean model and partial privatization of pension system for Turkey. However both opponents and supporters could not affect the reform outcome as they are deprived of veto power (Teksöz, 2010).

For instance, one of the major labor unions in Turkey, Türk-İş agrees on reform need considering the technical and financial problems of pension system in 1999. It suggests that public pension system would become sustainable through increase in the retirement age, equity in norms and standards, autonomous management and subsidies of the state. Thus it opposed the reform by claiming that any reform model based on ILO 1996 Report would mislead the actual causes of instability in the system. According to Türk-İş, inflation and populist policies implemented for electoral reasons caused early retirements and contributed to the financial unsustainability of the system. Therefore the pension system should be autonomous and free of political interventions for sustainability. But the proposed reform only deals with containing deficits rather than preventing such political interventions.

[10] See the publications of TUSIAD, 1996 and 1997.

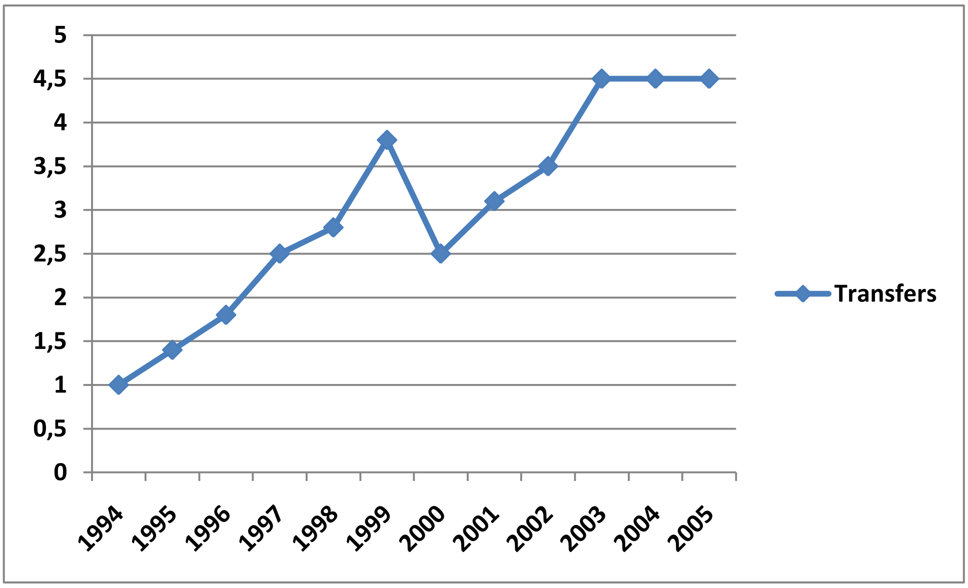
Moreover Türk-İş objected to the reform by arguing that ILO report was directed by the World Bank ideology and not objective and convenient. It criticizes policy makers because of consulting foreign experts on reform as foreigners do not know the special circumstances and needs of Turkey and proposes reform options only based on numerical analyses. Moreover introduction of Individual Pension System was not realistic as the provision of public pension system is a constitutional duty of the state. It blames the Government because of its retrenching role in social insurance provision by instituting pension privatization (Türk-iş, 1996).

However, the objections and claims of the labor unions did not prevent the enactment of both parametric changes and voluntary Individual Pension System. Although they manipulated the reform process in public through disinformation, they could not change the reform parameters as they are deprived of veto power. Because labor unions could not ally with any of the major parties in the parliament as the reform is implemented by three partite coalition government on consensus. Moreover the Turkish governments only hesitate about losing electoral support and opponents could not form such leverage to control voting power against policy makers. On the other hand, supporters of pension privatization were minority and high transition costs evaded them to be assertive. Most of all, 1998 economic crisis and 1999 earthquake together with increasing debts of pension system strengthened the hands of reformers. The reform was urgent and the government was determinant to implement it to ensure fiscal stability. Thus opposition parties could not falsified the objectives of the 1999 reform and could not block the process.

However rather than opponent interest groups, Constitutional Court intervened the reform process and annulled several articles of the reformed law claiming that they were against the Constitution. The annulment decision of the Court was based on the principle that people cannot be deprived of acquired rights especially regarding the status of Retirement Chest contributors. Some of the parametric changes could not be subjected to the Retirement Chest contributors as they are civil servants and so they have different status than the workers in private sector. Moreover The Court extended gradual increase of minimum retirement age in 10 years to 20 years (Sayan, 2010). This extension rasped the effect of the reform as people continued to retire early for the following 20 years. For this reason the effect of the reform did not last long. Although there was a significant decrease in the deficits for a couple of years, they rose again and another reform need occurred. According to a World Bank expert “change in Turkey moves at a glacial pace with the Government and Constitutional Court permitting only relatively small and gradual changes” (Interviews, 2010). So it is fair to argue that 1999 reform model designed by a group of experts assigned by the Government and under the control of the Government as well as the annulment power of the Constitutional Court.

After the implementation of 1999 parametric reform, its positive effects reflected on the economy. However the deficits continued to increase as seen in Figure 4.3 below, because of 2001-2 economic crisis as well as the continuity in early retirements. In a report of State Planning Organization (SPO, 2004: 59-60) it is claimed that 2001 crisis eliminated the positive financial effect of 1999 reform, because contribution rates to the system reduced with the increase in unemployment rates and the size of the informal economy during the crisis period (Arap, 2006: 33). As Figure 4.3 below illustrates, the deficits started to increase after a significant decline in early 2000s. The new one party Government established by AKP (Justice and Development Party) in 2002 focused on macroeconomic stability and decreasing budget balance. Thus in 2002 a new reform initiative focusing on more comprehensive measures in terms of institutional and financial restructuring of the system started (Teksöz, 2003).

Figure 4.3: The Subsidized Deficits of Pension System (%GDP)



Source: Basbakanlık, 2005: 43.

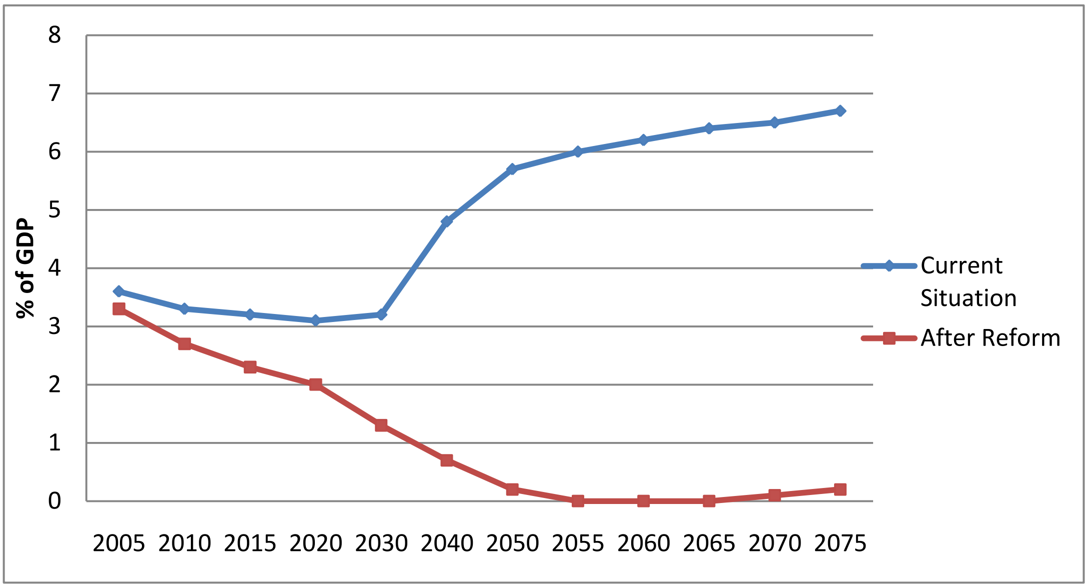
4.3. The 2006 Pension Reform

In 2004 the AKP Government assigned a group of experts similar to 1999 reform group and one of the experts from 1999 group, Tuncay Teksöz is assigned for the head of Social Security Institution to manage the process. The proposal of the reform was published in the website of the Ministry of Labor and Social Security to debate and negotiate publicly with interest groups under his leadership to decrease opposition. After several meetings and negotiations with interest groups during 2004, ministry of Labor and Social Security and Social Security Institution published the book *Social Security Reform: Problems and Solution Suggestions* in 2005 as the reviewed version of the reform proposal. Parallel to the grounds of 1999 reform, demographic changes, financial liabilities of the system on the budget, institutional problems and low coverage are discussed as major problems in the reform book (Basbakanlık, 2005).

As well as in 1999 reform, macroeconomic concerns provide the basis of 2006 reform as financially unsustainable pension system is blamed for distracting economic stability and increasing public sector borrowing requirement. The deficits of the system cause higher interest rates and inflation, and contract economic growth rates. According to economic stability plan of the Government, the pressures of public debts on economy should be alleviated in order to control inflation without renouncing economic growth (Basbakanlık, 2005: 43-44). The former minister of Labor and Social Security, Basesgioglu claims that the deficits of pension system increase continuously since 1994 and threaten the stability of the economy. He foresees that the expected amount of subsidy to public pension system will equal to 4,5% of GDP in 2004 and yet deficits would continue incrementally (Yeni Asya, 2004). Consisted with his claims, World Bank former director in Turkey advocates that Turkish pension system was not sustainable and required reform to prevent bankruptcy in coming 15-20 years. He claims that the main problem of the system was generous benefits despite low retirement age and contributions (Vorkink, 2004). Thus in order to ensure financial discipline, a comprehensive social security reform reducing deficits is required according to the Government.

The new reform aims to ensure financial sustainability of the system as well as 1999 reform. As seen in Figure 4.4 below, the reform would ensure that deficits of the system remain 1% of GDP at most in the long-run. Thus the pressure on general budget would be reduced and the system would be financially sustainable.

Figure 4.4: Comparison of Pension System Deficits as % GDP: Current Situation and After the Reform



Source: Basbakanlık, 2005: 91.

Besides financial liabilities, multi-headed social security system was another problem providing different levels of services and benefits to the beneficiaries. Complicated regulations, excessive bureaucratic processes and deficient information technologies were causing inefficient and unfair treatment (Basbakanlık, 2005: 51-53). These institutional and administrative problems led a broader reform package which also includes the reform of whole social security system; health and social assistance schemes as well as pension system. Since the very first 5-year development plans, the unification of social insurance institutions under the one institution (tek çatı) and ensuring the equity of norm and principle between workers of different sector are targeted reform parameters (Apan, 2007: 214).

Considering the size of the reform changing many features of social security legacy, it was important to assure compromise on the parameters. The problems are voiced by high rank state officials regularly to prepare the base for the reform to prove that this reform is urgent and strictly required. Exchange of ideas is maintained during various meetings and seminars either prepared by interest groups or the Government. In this way, the oppositions to reform would be decreased and the impact of the changes would last long as people would not violate the law when they attach credence to reform (Interviews, 2010). For instance, EU membership criteria is used as a justification base for the reform by claiming that even if the system's deficits are reduced to reasonable levels, below %4,5 of GDP, the ratio of budget deficits to the GDP must be below 3% as Maastricht Criteria requires in adjustment process for EU membership (Basbakanlık, 2005: 45-46).

The major parametric changes of the reform are the increase in minimum retirement age and minimum contribution of days. Early retirement is argued as the fundamental cause of increasing financial debts. According to the reform proposal, only in SKK, 62% of retired people are below the retirement age of 58-60. Thus the period for receiving pensions in Turkey is one of the longest periods among OECD countries (Basbakanlık, 2005: 50-51). For this reason, the Government rationalizes the increase in age condition as it encourages people to contribute longer to the system and receive more pension as they contribute longer. According to Teksöz, there is an opportunity window for Turkey in next twenty years in terms of aging. The dependent population (btw 15-0 and 65+) to economically active population would decrease in next twenty years and would increase approximately after 2035 which would create aging problem. For this reason, the pension system should be reformed immediately to accumulate more reserves in the opportunity window period not to bankrupt in the ageing period (TISK, 2005: 28-33).

During the reform process, labor unions opposed parametric changes especially to increase in minimum retirement age and contribution of days whereas business groups like TUSIAD supported the reform advocating a mandatory private pillar should also be instituted. One of the major labor unions, DISK claims that the reform advocates privatization of public pension system to ensure its financial sustainability blaming on deficits causing macroeconomic instability. It argues that the new institutional model imposed by the World Bank is designed to transform system into defined contribution pension system to improve capital market and eliminate state’s role in pension provision. According to DISK, the only reason of emphasizing financial problems of the system is to create a base to abolish it. Moreover DISK opposes any increase in the retirement age and minimum day to pay premium as it would mean retirement in the grave (mezarda emeklilik) considering the life span of Turkish people (DISK, 2004). It seems that the main reason behind the opposition of labor unions to pension reform is complicating the retirement conditions and decreasing benefits to encourage additional pension like Individual Pension Scheme. Although all changes of the reform were parametric, labor unions and several chambers claimed that this reform prepares the base for pension privatization as they manipulated the reform to make it unpopular in public through disinformation.

On the other hand, TUSIAD advocates a mixed model with a large public pension scheme. Through two simulations, it suggest that if 8% or 6% of the total 20% contributions is transferred to mandatory defined contribution scheme to be invested in the market, the return would be higher than the pension of public scheme (TUSIAD, 2004). But according to Teksöz, public scheme could not manage high transition costs while suffering from high deficits at the same time as its revenues drop from 20% to 12% per active contributor whereas its commitments continue for the retired and people who are about to retire in the near future (Interviews, 2010). This objection was also found reasonable by the World Bank. According to the World Bank expert, because the contribution limits had been raised and the resulting liabilities in the system were substantially higher since 1999 reform and the Government had once again begun running high pension deficits, the transition costs of moving to mandatory private scheme would have been too high to consider such a move (Interviews, 2010). Moreover Basesgioglu mentions that they consulted to the experiences and knowledge of World Bank, but they are not directed by these experts and designed the reform model according to the interests and needs of citizens. (TISK, 2005: 12-20). Also World Bank supported parametric reform through Public Sector Development Loans received in 2006 (Interviews, 2010). Considering the objections, TUSIAD did not pressure for this kind of reform, but published academic studies to argue the benefits of a multi-pillar system (see TUSIAD, 2004).

After negotiations with interest groups, the reform law is enacted in 2006 implementing major changes in the pension system as the AKP Government has the majority of seats in the parliament. Parties reconciled on several parametric changes like the reduction of minimum contribution of 9000 days to 7200 days for private sector workers which remained as 9000 days for state workers and self-employed. However the Government succeeded to enact gradual increase in the minimum retirement age after 2036 due to the high dependency ratios and rising public debts. Thus the parties agreed on four titles out of seven whereas on three titles the

Government did not negotiate including the increase in the retirement age. Institutionally, the reform merges multi-headed institutions into one institution as Social Security Institution to ensure equity of norm and standards for all future retired people.

However the Constitutional Court annulled several articles of the reformed law similar to 1999 reform. The annulment decision is based on the equity principle between civil servants working in public sector and that civil servants have different status than private sector workers (Izgi, 2008: 102). Thus all workers could not have the same status even if they have the same jobs either in public or private sector. After the annulment decision, Teksöz is resigned and the reform group is dismissed. The government implemented more revisions with regards to institutional and administrative changes in the reform than the decision of the Court required. The change in the Government's attitude towards the reform could be explained the process is mainly managed by the Teksöz and his reform group. Once their power is dissolved over the reform package, the Government took control and altered several parameters of the reform package. The reviewed reform is legislated in the parliament in 2007 and implemented officially in 2008.

4.4. Conclusion

Parallel to the reform periods in Latin America and Eastern Europe, public pension system in Turkey reformed in 1999 and 2006. As well as in Brazil and the Czech Republic, the privatization of public pension system is not favored but in 2003 individual pension system is established on voluntary base with the 1999 reform. In 1999, the three partite coalition Government is forced by macro-economic indicators to implement a pension reform to contain the deficits of the system. During the mid-1990s, structural pension reform to institute a mixed system is considered as well as parametric changes. But pension privatization is not favored by the reform group of experts and important parametric changes are implemented to ensure system's financial sustainability. In the 2006 reform, only parametric, institutional and administrative changes came forward and except businessmen group TUSAID, related actors did not advice pension privatization due to the high transition costs.

Turkey had macroeconomic instabilities and pension debts since the early 1990s similar to other case studies in this research. However governments evaded implementing any parametric changes as the reform of pension system is unpopular in public and would cost to lose electoral support. This situation of Turkey is similar to welfare legacy of post-socialist states which increased the public expectation on generous benefits. However Hungary and Poland implemented a radical change by introducing partial pension privatization as their systems collapsed and there was space for new ideas and change. On the other hand, Turkey had deprived of such a critical environment that could be used to bring new perspectives in pension provision.

As in other cases, the 1999 reform is implemented after major catastrophes such as economic crisis of 1998 and 1999 earthquake as these events increased the financial liabilities on the budget and complicated to subsidize the increasing debts of the pension system. However, the crises were not severe as in cases of Mexico and Argentina to implement a radical urgent reform like substitutive or mixed model. As in the Czech Republic the government could continue to subsidize the system as prior to 1999 reform the debt of the system was around 3.7% of GDP which was the lowest level among cases. But the government took measure against the debts by claiming that increasing subsidies deteriorates the budget balance and containing macroeconomic performance.

Moreover Turkish pension system was fragmented according to the occupational status and one of the largest in terms covered people due to the large population. As discussed in the first part of this chapter, the dependency ratio of the system was the highest rate among cases prior to 1999 reform. Thus according to the reform group, indicators of the system demonstrated that transition cost to a mixed system was too costly to be covered. As the main purpose of the 1999 reform was containing financial unsustainability of the pension scheme, the transition to mandatory private scheme would bring more costs that the Government trying to evade.

The fragmented structure of Turkish public pension system is similar to Brazilian pension system and there are inequalities between schemes in terms of benefits and contributions. Private and public sector workers and self-employed people contribute to the system in different amounts and receive different benefits. Workers in public sector are more advantageous as their employer is the state. For instance their premiums are similar to the payments of other sector workers, but they receive higher pensions as they calculated differently. Like Brazil’s, Turkish pension system is also a large one compared to other cases in this research in terms of covered population over 60 million, active contributors and informal sector. These factors complicated the implementation of mandatory defined contribution scheme as the transition costs would be too high to be covered especially when there are inequalities between different sector workers.

Differently than Brazil and the Czech Republic, labor unions in Turkey did not have to form coalitions to block pension privatization, because reformers eliminated this option due to the high transition costs. But, they opposed parametric and voluntary Individual Pension System, but they were lack of veto power to influence reform outcome. The large informal sector in Turkey reduces the influence of organized labor on policy makers. The public sector workers constitutionally do not have right to strike affecting the influence of organized labor. Besides these factors, labor unions in Turkey are not organized and deprived of vision. Instead of criticizing every parametric change required for the sustainability of the system, they could pressure for a reform that could contain large informal economy, poverty and high ratio of dependents due to increasing unemployment. However, they could form coalitions to influence the reform outcome, but they were divided among themselves due to the different interests. As the government devoted power to reform group of expert, reformers implemented necessary parametric changes to increase the efficiency of the pension system. But the Constitutional Court annulled several parameters of the reform which were also objected by the interest groups. Thus the interventions of the Constitutional Court to affect reform design are similar to the Constitutional Court decisions of Hungary and Poland.

However differently than the 1999 pension reform, interest groups were actively participated in 2006 reform process. Prior to the reform, ministry of Labor and Social Security opened reform proposal to debate on website of the ministry for negotiation. Because, the 2006 reform was not only a pension reform but a part of a broader reform package including the reform of general health insurance, pension system, social security institution, the Government considered public support important to change social security legacy. Thus the Government chose to negotiate with labor unions and other interest groups to decrease opposition to the reform and contain electoral constraint. The Government advertised the reform that it is negotiated and implemented on consensus with interest groups. As pension privatization is not considered as an option in 2006 reform, The Government and interest groups only negotiate on parametric and institutional changes.

Moreover instability and crises did not bring more influence to neo-liberal technocrats in both reform periods contrary to other cases that instituted pension privatization. This lack of influence of neo-liberal technocrats could be that although the subsidized deficits were high, compared to other cases the debt of the system was the lowest prior to 1999 and 2006 reform and the crises were not severe. Modest subsidized deficits contained the interference of neo-liberal technocrats in the reform process. So it is fair to argue that the 1999 reform and the 2006 reform as well are managed by the reform group of experts and the reform enacted in the parliament with the determination of coalition government. This difference of Turkey could be explained by the words of a World Bank expert that "in Latin America the technocrats were often educated abroad and returned to their home countries with new ideas and the tools to carry them out. In Eastern Europe where the system collapsed, new group of very young neo-liberal technocrats was given a mandate to make drastic changes. However, change moves at a glacial pace in Turkey with the Government and Constitutional Court permitting only relatively small and gradual changes" (Interviews, 2010). Thus, different levels of commitment to liberal technocracy and liberal market are influential in the reform outcome.

The World Bank appears as a supportive actor during the both reform processes through technical and financial support as in other cases. In all cases, World Bank advocated the advantage of introducing a mandatory defined contribution pillar, but it did not impose a certain model. During the 1999 reform, the World Bank suggested establishing a multi-pillar pension system, but reform group did not favor this option considering high costs of transition. However the World Bank continued its financial support by financing ILO 1996 report on the pension reform. Moreover in the 2006 reform, the transition costs were too high to be covered by the budget according to both reformers and the World Bank. Thus, the World Bank appears as an active actor advising pension privatization when the conditions are appropriate to consider such a move.

CHAPTER 5

CONCLUSION

The present study has examined the diffusion of structural pension reforms in developing countries of Latin America and Eastern Europe in comparison with Turkey to discuss what kinds of factors are determinants to enable such a radical change in the structure and the nature of pension provision. In particular it have explored why Turkey did not follow other developing countries and prefer structural pension reforms to privatize its public pension system.

According to the literature discussed in the Chapter 2, public pension systems based on PAYG funding became financially unsustainable during the 1990s as they matured. Countries have to subsidize pension systems financially and these debts posing huge liabilities on the governments led them to consider either parametric or structural pension reforms for sustainability. Chile initiated a different pension system model in 1981 compared to the rest of the world which based on full individual funding rather than PAYG and defined contribution scheme. Although governments did not find the new model credible in the following decade, new initiatives took place in other parts of the Latin America in the early 1990s. In late 1990s, this diffusion spread to Eastern Europe and other parts of the World at different levels indicating a new global trend in pension provision.

This diffusion is significant to discuss in order to understand why countries are favoring the role of market in social insurance provision. In other words why countries privatize their public pension system which changes the logic and the nature of the system whereas other countries still counting on their public pension system. For inquiry, I have argued that several political economy factors are influential in reform outcomes such as the crises in economy and public pension system; the context of political regime regarding the strength of the government in the parliament, the level of democracy, welfare legacy and electoral constraints; the influence of interest groups as veto players and the influence of World Bank as a promoter of the private pension system. These principal determinants have constituted the theoretical base of this research and provided the analytical framework to discuss how they lead full, partial or no pension privatization in case studies. I have chosen seven cases from Latin America and Eastern Europe for a comparative multiple case study including Chile, Mexico that instituted full pension privatization, Argentina, Hungary and Poland that implemented partial pension privatization, and Brazil and the Czech Republic that avoided structural pension reforms and enacted parametric changes as in case of Turkey.

The detailed analysis of these seven cases in Chapter 3 demonstrates that the factors in analytical framework are interrelated to each other in shaping the reform outcome. The results indicate that governments consider structural pension reforms at first sight due to the situation in economy and pension system. The worsening situation in economy and pension system provides an opportunity for governments and neo-liberal technocrats to implement a radical market oriented change in public pension system. Relatively better situations cannot create a justification base for pension privatization as in cases of the Czech Republic and Brazil. These cases had the lowest level of subsidies to pension system among cases. However worsening situations can also deter costly changes. Besides crises, transition costs are also influential in determining the reform model. For instance, Brazilian policy makers did not implement a defined contribution pillar due to the high transition costs.

Secondly the context of political regime in which reform process is implemented has significant influence over the reform outcome. Countries like Chile and Mexico which had authoritarian and semi-democratic regimes during the reform process had totally privatized their public pension systems by transferring defined benefit system as a whole to defined contribution system. This is mainly because such regimes could easily ignore electoral support and welfare legacy as they were not responsive to the public expectations. Being only power in legislation and execution provided Chile and Mexico sufficient capacity to legislate such a radical and unpopular change in pension system. Contrarily, in Argentina, Hungary and Poland where there is more democratic consolidation, especially in East Europe countries where there is welfare legacy of socialism and high level of public expectations, full privatization attempts are blocked and governments implemented partial privatization with larger public pillar.

The influence of interest groups is also a determinant in reform outcome depending on how political context provide space for them to act as veto players. In general labor unions and pensioners' organizations oppose privatization of public pension systems and attempt to block reform initiative by intervening the decision making process or allying with other opposition parties and unions. In the case of Brazil, oppositional interest groups could have successfully acted as veto players by forcing governments to negotiate and compromise on reform model. In the case of

Argentina, they influenced the reform outcome decreasing its level from full to partial, but could not block pension privatization. In case of Brazil, opposition parties unified and formed coalitions with leftist parties to challenge the reform model.

The fourth factor in the analytical framework is the influence of the IFIs. Although institutions like IMF, ILO and IDB have a certain approach to privatization of pension system, in this study the approach of World Bank is investigated as its technical and financial assistance for pension reform are more obvious in all reformer countries in this study. In case studies that enacted pension privatization, World Bank appears as the supporter of pension privatization as it provided expertise and major structural loans to render defined contribution pillar possible. However, in no pension privatization cases, it does not have a significant role. Although it advised mixed pension system to both Brazil and the Czech Republic, it did not enforce countries. But it supported parametric changes to strengthen public pension system through financial loans.

The analysis of Turkish reform experience according to the analytical framework indicates how variations on principal determinants have led no pension privatization in Turkey. World Bank advised mixed model in the 1999 reform, but this model is not favored by the government due to the several factors. The dominant factor preventing the privatization of public pension system appears as the high transition cost which was found by the technocrats difficult to be covered. In addition, the state of economy and public pension system did not require an urgent reform compared to other cases. The absence of bankruptcy in the economy and pension system evaded new ideas and perspective on reform model and this situation limited the influence of technocrats to interfere the reform process. Similar to

Brazilian pension system, Turkish pension system is also highly fragmented and unequal in terms of benefits and contributions. Thus, priority is given to required parametric changes to sustain the system instead of privatization. The influence of labor unions in reform process was also limited as they did not have to form coalitions to oppose the structural reforms as this option is already faded out by technocrats.

The analyses of reform outcomes in the form of full, partial or no privatization indicate that principal factors discussed in this research determine the reform outcome in an interrelated relationship. However, there could be other factors influential in the reform outcome such as the ideology of the government. Although in this research selected cases with different ideological orientations implemented pension privatization either partially or totally, in further studies the correlation between ideology and pension privatization can be discussed. I think that the discussion of the influence of the interest groups as veto players eliminated the necessity of the examination of ideology as a factor to some extent, because this approach focuses on capacity for policy change and renders comparison among different governments possible. However the examination of correlation between ideology and the privatization of public pension systems could lead other case studies and contribute to the findings of this research.

BIBLIOGRAPHY

Ak, Mehmet Z. and Sükrü Cicioglu. 2006. "Sosyal Güvenlik Siteminin Yeniden Yapılandırılması Gereği ve Reform Paketi" [Necessity of Reconstruction of Social Security System and Reform Package], *Hukuk, Ekonomi ve Siyasal Bilimler Aylık İnternet Dergisi* 54: 1-13.

Andersen, Gosta-Esping. 1990. *The Three Worlds of Welfare Capitalism.* Princeton: Princeton University Press.

Apan, Ahmet. 2007. "Türkiye'de Kalkınma Planları ve Sosyal Güvenlik Reformu" [Development Plans in Turkey and Social Security Reform], *Türk İdare Dergisi* 456: 193-217.

Arap, İbrahim. 2006. "Kamu Yönetimi Anlayışındaki Değişim Sürecinde Türkiye'de Sosyal Güvenlik Reformu" [Changing Features of Public Administration and the Social Security Reform in Turkey], *Sosyal Bilimler Enstitüsü Dergisi* 8(3): 20-53.

Barrientos, Armando. 1996. "Pension Reform and Pension Coverage in Chile: Lessons for Other Countries", *Bulletin of Latin American Research* 15(3), 309-322.

Basbakalık [Prime Ministry]. 2005. *Sosyal Güvenlik Reformu: Sorunlar ve Çözüm Önerileri* [Social Security Reform: Problems and Solution Suggestions], Ankara: T.C. Basbakalık.

BES. 2010. Bireysel Emeklilik Sistemi [Individual Pension System]. Consulted 5 March 2010. < http://www.bireyselemekliliksistemi.info/>

Borzutsky, Silvia. 1998. "Chile: The Politics of Privatization", Mariá Amparo Cruz-Saco and Carmelo Mesa-Lago. (eds.) *Do Options Exist?: The Reform of Pension and Health Care Systems in Latin America.* Pittsburgh: University of Pittsburgh Press.

Brooks, Sarah M. 2009. *Social Protection and the Market in Latin America: The Transformation of Social Security Institutions*. Cambridge: Cambridge University Press.

Chlon, Agnieszka, Marek Góra and Michal Rutkowski. 1999. "Shaping Pension Reform in Poland: Security through Diversity", World Bank Social Protection Discussion Paper Series No: 9923. Washington, DC: World Bank.

DISK. 2004. "Sosyal Güvenlik Sisteminde Reform Önerisine İlişkin DİSK'in

Değerlendirme Raporu" [The Criticisms of DISK on the Proposal for Reform in Social Security System]. Consulted 27 August 2009. <http://www.devmadensen.org/duyuru/disk_sosyal_guvenlik.doc>

Fultz, Elaine and Markus Ruck. 2001. "Pension Reform in Central and Eastern Europe: Emerging Issues and Patterns", *International Labor Review* 140(1), 19-43.

Gern, Klaus-Jürgen. 2002. "Recent Developments in Old-Age Pension Systems", Martin Feldstein and Horst Siebert. (eds.) *Social Security Pension Reform in Europe*. Chicago: The University of Chicago Press.

Gillion, Colin et al. (eds.). 2000. *Social Security Pensions: Development and Reform.* Executive Summary. Geneva: International Labor Office.

Gümüş, Erdal. 2006. "Benefit-Cost Analysis of Reforming the Turkish Social Insurance Institution for the Self-Employed (Bağ-Kur)", *METU Studies in Development* 33: 169-206.

Güvercin, Cemal Hüseyin. 2004. "Sosyal Güvenlik Kavramı ve Türkiye'de Sosyal Güvenliğin Tarihçesi" [Social Insurance Concept and Its History in Turkey], *Ankara Üniversitesi Tıp Fakültesi Mecmuası* 57(2): 89-95.

Haggard, Stephan and Robert R. Kaufman.2008. *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe.* Princeton: Princeton University Press.

Hausner, Jerzy. 2002. "Security through Diversity", Martin Feldstein and Horst Siebert. (eds.) *Social Security Pension Reform in Europe*. Chicago: The University of Chicago Press.

Holzmann, Robert. 2000. "World-Wide Pension Systems and Directions of Reform", Presentation presented at Pension Workshop held in Harvard University, Harvard, UK, June 19-30.

Holzmann, Robert, David A. Robalino and Noriyuki Takayama. (eds.) 2009. *Closing the Coverage Gap: The Role of Social Pensions and Other Retirement Income Transfers*. Washington, DC: World Bank.

Hunter, Wendy and Natasha B. Sugiyama. 2009. "Democracy and Social Policy in Brazil: Advancing Basic Needs, Preserving Privileged Interests", *Latin American Politics and Society* 51(2), 29-58.

Isuani, Ernesto A. and Jorge S. Martino. 1998. "The New Argentina Social Security System: A Mixed Model", Mariá Amparo Cruz-Saco and Carmelo Mesa-Lago. (eds.) *Do Options Exist?: The Reform of Pension and Health Care Systems in Latin America.* Pittsburgh: University of Pittsburgh Press.

Izgi, Berna B. 2008. "Türk Sosyal Güvenlik Sisteminde Son Gelişmeler" [The Last

Developments in Turkish Social Security System], *Çalışma ve Toplum* 1: 85-106.

Kane, Cheikh T. 1998. "Reforming the Brazilian Pension System", Mariá Amparo Cruz-Saco and Carmelo Mesa-Lago. (eds.) *Do Options Exist?: The Reform of Pension and Health Care Systems in Latin America.* Pittsburgh: University of Pittsburgh Press.

Kay, Stephan J. 1999. "Unexpected Privatizations: Politics and Social Security Reform in the Southern Cone", *Comparative Politics* 31(4), 403-422.

Kay, Stephan and Barbara E. Kritzer. 2001. "Social Security in Latin America: Recent Reforms and Challenges", *Economic Review*, First quarter, 41-52.

Kritzer, Barbara E. 2000. "Social Security Privatization in Latin America", *Social Security Bulletin* 63(2), 17-37.

-----. 2002. "Social Security Reform in Central and Eastern Europe: Variations on a Latin American Theme", *Social Security Bulletin* 64(4), 16-32.

Koichi, Usami. 2003. "Latin American Social Security Reform in the 1990s", *The Journal of Social Science* 55(1), 153-167.

Korkmaz, Sait. 2007. "Türkiye'de Sosyal Güvenlik Finansman Açıkları ve Sosyal Güvenlik Kurumunun Bu Açıklar Üzerindeki Olası Etkileri" [The Financal Gap of Social Security System in Turkey and the Effects of Social Security Institution on this Gap]. Master's Thesis. Ankara: Hacettepe University. Consulted 05 May 2010. <http://www.csgbteftis.gov.tr/yayinlar/SaitKORKMAZ1.pdf>

Madrid, Raúl. 2002. "The Politics and Economics of Pension Privatization in Latin America", *Latin American Research Review* 37(2), 159-182.

Mares, Isabela and Matthew E. Carnes. 2009. "Social Policy in Developing Countries", *Annual Review of Political Science* 12, 93-113.

Martino, Jorge S. 2007. *Pension Reform and the Development of Pension Systems: An Evaluation of World Bank Assistance*. Background Paper: Argentina Country Study. Washington, DC: World Bank.

Mesa-Lago, Carmelo. 1994. *Changing Social Security in Latin America: Toward Alleviating the Social Costs of Economic Reform.* London: Lynne Rienner Publishers.

-----. 1996. "Pension System Reforms in Latin America: The Position of the International Organizations", *Cepal Review* 60, 73-98.

-----. 1997. "Social Welfare Reform in the Context of Economic-Political Liberalization: Latin American Cases", *World Development* 25(4), 497-517.

-----. 2001. “Structural Reform of Social Security Pensions in Latin America: Models, Characteristics, Results and Conclusions”, *International Social Security Review* 54(4), 67-92.

-----. 2002. “Myth and Reality of Pension Reform: The Latin American Experience”, *World Development* 30(8), 1309-1321.

-----. 2007. “Social Security in Latin America: Pension and Health Care Reforms in the Last Quarter Century”, *Latin American Review* 42(2), 181-201.

Mesa-Lago, Carmelo and Katharina Müller. 2002. “The Politics of Pension Reform in Latin America”, *Journal of Latin American Studies* 34(3), 687-715.

Mesa-Lago, Carmelo and Alberto Arenas de Mesa. 2006. “The Structural Pension Reform in Chile: Effects, Comparisons with Other Latin American Reforms, and Lessons”, *Oxford Review of Economic Policy* 22(1), 149-167.

Miceli, Leonardo and Felipe Salto. 2008. “Social Security: Favorable Results during Semester do not Guarantee Sustainability”, *Tendências Data*, 29 July.

Mitchell, Olivia S. 1998. “Social Security Reform in Latin America”, *Review March/April 98* 80(2), 15-18.

Müller, Katharina. 2000. *The Political Economy of Pension Reform in Central-Eastern Europe*. Northampton: Edward Elgar Publishing.

-----. 2002. “From the State to the Market? Pension Reform Paths in Central-Eastern Europe and the Former Soviet Union”, *Social Policy and Administration*, 36(2), 156-175.

-----. 2008. “Pension Privatization and Economic Development in Central and Eastern Europe: A Political Economy Perspective”, United Nations Research Institute for Social Development. Consulted 1 April 2010. <http://www.unrisd.org/80256B3C005BCCF9/search/B6182D3FED8BDEE4C1257601003F64B2?OpenDocument>

Nobrega, Mailson da. 2002. “Social Security: The Threat Remains”, *Tendências Data*, 16 September.

Oliveira, Francisco E. B. 1994. “Social Security in Argentina, Brazil, Chile and Venezuela”, Francisco E. B. de Oliveira. (eds.) *Social Security Systems in Latin America*. Washington, DC: Inter-American Development Bank, 1-18.

Olgaç, M. Kemal. 2003. “Bireysel Emeklilik” [Individual Pension System], Pension Funds Conference, May 2003. Consulted 08 June 2010. <http://www.ku.edu.tr/files/corporate/Pension_Funds_Conference_Kemal_Olgac.ppt>

O’Neil, Shannon. 2007. “Fixing Social Security in Latin America”, *Business Chile*, 1 December.

Peker, Ayse. 1997. “Sosyal Güvenlik Sisteminin Yeniden Yapılandırılması Tartışmaları ve Çözüm Önerileri” [Debates on Restructuring of the Social Security System and Solution Suggestions], Central Bank of the Republic of Turkey Research and Monetary Policy Department, Discussion Papers No: 9703.

Piñera, José. 2002. “The World Pension Revolution and the Promise of America”, *Journal of AmCham Chile,* 1 May.

Rocha, Roberto and Dimitri Vittas. 2002. “Hungarian Pension Reform: The First Years of Implementation”, Martin Feldstein and Horst Siebert. (eds.) *Social Security Pension Reform in Europe*. Chicago: The University of Chicago Press.

Samwick, Andrew A. 2000. “Is Pension Reform Conducive to Higher Saving?”, *The Review of Economics and Statistics* 82(2), 264-272.

Simonovits, András. 2000. “Partial Privatization of a Pension System: Lessons from Hungary”, *Journal of International Development* 12, 519-29.

-----. 2009. “Hungarian Pension System and Its Reform”, Institute of Economics, Hungarian Academy of Sciences Discussion Papers 2009/8.

Singh, Ajit. 1996. “Pension Reform, the Stock Market, Capital Formation and Economic Growth: A Critical Commentary on the World Bank’s Proposals”, *Center for Economic and Policy Analysis Working Paper Series* 1(2).

Schwarz, Anita M. and Asli Demirguc-Kunt. 1999. “Taking Stock of Pension Reforms Around the World”, World Bank Social Protection Discussion Paper Series No: 9917. Washington, DC: World Bank.

SGK. 2010. Sosyal Güvenlik Kurumu [Republic of Turkey Social Security Institution Website]. Consulted 3 March 2010. <http://www.sgk.gov.tr/wps/portal/tr>

Social Security Programs throughout the World: The Americas. 2007. US Social Security Administration, Office of Retirement and Disability Policy. Consulted 24 November 2009. <http://www.ssa.gov/policy/docs/progdesc/ssptw/2006-2007/americas/index.html>

-----. 2009. US Social Security Administration, Office of Retirement and Disability Policy. Consulted 1 April 2010. <http://www.ssa.gov/policy/docs/progdesc/ssptw/2008-2009/americas/index.html>

Social Security Programs throughout the World: Europe. 2008. US Social Security Administration, Office of Retirement and Disability Policy. Consulted 24 November 2009.

<http://www.ssa.gov/policy/docs/progdesc/ssptw/2008-2009/europe/index.html>

Social Security Programs Throughout the World: Asia and the Pacific, 2008. US Social Security Administration, Office of Retirement and Disability Policy. Consulted 05 May 2010. <http://www.ssa.gov/policy/docs/progdesc/ssptw/2008-2009/asia/turkey.html>

SPO, State Planning Organization [Devlet Planlama Teşkilatı, DPT]. 2004. *Sekizinci Beş Yıllık Kalkınma Planı 2005 Yılı Programı* [8th Quinquennial Development Plan 2005 Program]. DPT: Ankara.

-----. 2010. "Ekonomik ve Sosyal Göstergeler, Bölüm 8: Sosyal Sektördeki Gelişmeler" [Economic and Social Indicators, Part 8: Developments in Social Sector]. Consulted 3 June 2010. <http://www.dpt.gov.tr/PortalDesign/PortalControls/WebIcerikGosterim.aspx?Enc=83D5A6FF03C7B4FC6342E0EC9C4A5C0B1E45259415D3A4F1139B5402F220BD0B>

Teksöz, Tuncay. 2003. "Sosyal Güvenlik Sisteminde Reform" [Reform in Social Security Sytem], *Tisk-Işveren Dergisi* Mayıs Sayısı [Volume May]. Consulted 27 August 2009. <http://www.tisk.org.tr/isveren_sayfa.asp?yazi_id=719&id=43>

TISK. 2005. *Sosyal Güvenlik Yasa Tasarılarının Değerlendirilmesi Semineri* [The Evaluation Seminar of Social Security Draft Law]. Ankara: TISK.

Türk-İş. 1996. *Sosyal Güvenlik Reformu Araştırması Hakkında Değerlendirme Raporu* [Evalution Report on Social Security Reform Research]. Ankara: Türk-iş.

TUSIAD. 1996. *Emekli ve Mutlu: Türk Sosyal Güvenlik Sisteminin Sorunları, Çözüm Önerileri ve Özel Sigortacılık Girişimi* [Retired and Happy: Problems of Turkish Social Security System and Private Insurance Enterprise]. İstanbul: TUSIAD.

-----. 1997. Türk Sosyal Güvenlik Sisteminde Yeniden Yapılanma [Restructuring of Turkish Social Security System]. İstanbul: TUSIAD.

-----. 2004. *Türk Emeklilik Sisteminde Reform: Mevcut Durum ve Alternatif Stratejiler* [Reforming Turkish Pension System: Current Situation and Alternative Strategies]. İstanbul: TUSIAD.

Weyland, Kurt. 2005. "Theories of Policy Diffusion: Lessons from Latin American Pension Reform", *World Politics* 57, 262-295.

-----. 2006a. *Bounded Rationality and Policy Diffusion: Social Sector Reform in Latin America.* Princeton: Princeton University Press.

-----. 2006b. “External Pressures and International Norms in Latin American Pension Reform.” Working Paper# 323. Consulted 11 October 2009. <http://www.nd.edu/~kellogg/publications/workingpapers/WPS/323.pdf>

World Bank. 1993. “Argentina: From Insolvency to Growth”, Country Study Report No. 12300. Washington, DC: World Bank.

-----. 1994. *Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth*. Oxford: Oxford University Press.

Valdés-Prieto, Salvador. 2007a. “Pension Reform and the Development of Pension Systems: An Evaluation of World Bank Assistance, Background Paper: Mexico Country Study”. Washington, DC: World Bank.

-----. 2007b. “Pension Reform and the Development of Pension Systems: An Evaluation of World Bank Assistance, Background Paper: Brazil Country Study”. Washington, DC: World Bank.

Vorkink, Andrew. 2004. “Vorkink’ten Sosyal Uyarı” [Warning from Vorkink]. 22 June. Consulted 05 May 2010. <http://www.radikal.com.tr/haber.php?haberno=120074>

Yeni Asya. 2004. “Sosyal Güvenlikte Alarm Sinyali” [Alarm Signals in Social Security], 30 July.